HE NEW DEMOCRAT

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BLUEPRINT

SUMMER 2000

IDEAS FOR A NEW CENTURY

The New Economy

How working Americans can

TAKE CONTROL

PRESIDENT BILL CLINTON on China
ROBERT D. ATKINSON on who will lead
WILL MARSHALL on expanding the winner's circle
SPECIAL REPORT:
JENNY BATES & DEBRA S. KNOPMAN on trade, labor, and the environment
PLUS: CLAUDE G. B. FONTHEIM, JEFF LEMIEUX, DEBORA SPAR, PAUL OSTERMAN, AND PENN'S POLL

New rules and tools for global competition

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BLUEPRINT
for the New Economy

REDEFINING WORK: A digital economy and networked world create greater opportunities at home and in the workplace. As the price of technology plunges and the Internet grows exponentially, the worldwide winner's circle can expand in unprecedented ways. Already the computer-literate are leading the computer-eager to new horizons of growth, like this businesswoman giving digital instruction to a novice.

COVER: Old economy meets new as this worker uses computer-aided design on die cutter form.

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THE NEW DEMOCRAT
BLUEPRINT

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The New Economy — driven by technology, globalization, and new methods of organizing work — has burst upon us in recent years like a great wave crashing onto a beach. For millions, this has created a moment of unparalleled opportunity and challenge, but for others it is a time of confusion and anxiety. Uncertainties about jobs and globalization's impact on human rights and the environment have called forth voices of confrontation and dissent, as we saw in the recent protests in Washington and Seattle. In Congress, doubts about the New Economy are echoed in the heated debate over President Clinton's call for permanent normal trade relations with China, a position he defends in this magazine.

Such strongly held views and disagreements have opened a new fault line in American politics. On one side stands an unholy left-right alliance that looks askance at the changes wrought by globalization and other New Economy forces, seeing only threats to workers and the environment. On the other side, free market advocates say: stand aside while the market works its infallible will.

This is not only a false debate, but a dangerous one as well. It wrongly focuses the story of the New Economy on pessimism and fear, when it is overwhelmingly a story of opportunity and inclusion.

In this issue of BLUEPRINT, we advance the view that the New Economy should not be seen as an end in itself, but as a means for empowering workers and raising living standards. The central challenge is to ensure that the forces propelling the New Economy advance the prospects of all Americans, not just high-tech moguls and Internet entrepreneurs. Our writers — some of America's best thinkers on worker empowerment, corporate social responsibility, and public-private partnerships — propose an aggressive package of initiatives to provide every American with the tools necessary to navigate an economy in which change has become the only constant.

But the debate is also about politics, and the historic choices faced today by the political parties. The party that seizes the wave of change sweeping our economy is the one is that is destined to lead for the coming generation. As our political drama unfolds this year, policy-makers need clear guideposts to the New Economy. The ideas and proposals in this magazine point the way.

—Peter Ross Range

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Americans have never had greater reason for optimism. Our policies should reflect that.

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Who will LEAD in the New Economy?

The political parties face a choice that will determine their relevance for years to come: embrace the liberating forces of the New Economy, or fall behind. The party that catches the wave will dominate.

by Robert D. Atkinson

Robert D. Atkinson is director of the Technology and New Economy Project at the Progressive Policy Institute.

In the last 110 years, three great waves of technological change have broken over the United States. These bursts of innovation fueled the rise of manufacturing in the 1890s, mass-production and national corporatism in the 1940s and 1950s, and high-tech entrepreneurialism and services in the global economy of the 1990s.

Each of these pivotal moments saw the demise of one kind of economy and the emergence of another. Each changed the nature of work, the organization of enterprises, the system of education, the places where people live, the role of government in promoting economic growth and social justice, and even traditional conceptions of family and morality. Each spread confusion and conflict as it struck — but each ultimately led to vast improvements in Americans' quality of life.

As economic historian Robert Wiebe has noted: "Americans have responded to each wave of technological advance in similar stages of protest and reform: diffuse criticism, attempts to patch the old order, [and] then efforts to modernize the social and political framework."

That cycle is repeating itself today, only this time at warp speed.

Computers and the Internet are fast becoming ubiquitous at work and at home. Bureaucratic organizations are yielding to decentralized networks, not only in the private sector

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"Our challenge today is to renew American democracy through social and political innovations aimed at resolving the new conflicts and dilemmas posed by seismic economic changes."

but in the public and civic realms as well. National economies are being absorbed into a global marketplace open for business 24–7. Employment is shifting from heavy manufacturing to new, knowledge-intensive ventures that scarcely existed a decade ago. These changes unleash tremendous creative energies and faster economic growth, but they are also profoundly disruptive for many Americans. Faster job churning, the waning of the promise of middle-class wages with only a high school degree, and the weakening of unions and the job security they attained have combined to make the New Economy a more risky proposition for many American workers.

Our challenge today, then, is essentially no different than the ones progressives faced in the last two transformations: To renew American democracy through social and political innovations aimed at resolving the new set of conflicts and dilemmas posed by these seismic economic changes.

The Clinton administration caught the wave of change in the early 1990s and crafted a new economic policy framework to fit the New Economy. Its economic prescriptions have stimulated robust growth by encouraging the forces — innovation, knowledge, trade, and global integration — that are propelling America into the New Economy. At the same time, it has begun the vital work of harnessing those forces to larger progressive goals: equal opportunity, better schools, universal health care, a renewal of family and civic life, a cleaner environment, safer streets, a strong national defense.

This progress, however, is threatened today by forces of economic reaction on both ends of the political spectrum. As President Clinton's tenure nears its end, it is critical that Democrats reaffirm their commitment to developing a new politics and policy for the New Economy. For the history of technological change over the past century suggests that whichever party catches today's wave of dynamic and profound transformation will lead the country for decades to come, while the party that resists and looks to the past for inspiration will fall behind.

New Economy, New Politics

The two previous technology revolutions not only created a new production economy, but also gave rise to a new political economy, reordering the political parties' fortunes and outlooks.

During the transition from the industrial to the mass production economy in the 1930s and 1940s, Democrats and Republicans held fundamentally opposing views. Roosevelt New Dealers correctly understood that the rise of large corporations and a national economy required a concomitant rise of national government. In contrast, Republicans, dominated by the Taft free-market, isolationist wing, believed that our new national challenges could continue to be solved within the confines of the laissez-faire policy framework developed in the 1910s and '20s.

By the 1950s, however, big corporations and big government had become a way of life, and Americans had grown used to them. In fact, Eisenhower saw "big business, labor, professions and government officials working together in the calmness of a nonpartisan atmosphere." Rockefeller Republicans and Kennedy Democrats might have differed on the margins, but both agreed on the fundamentals: Keynesian demand-led growth through government spending, and a focus on income redistribution, top-down economic regulation, and centralized bureaucratic government. Indeed, President Nixon summed up this consensus when he said, "We are all Keynesians now."

As the old economy reached the limits of its expansion and sank exhausted into "stagflation" by the late 1970s, the political consensus that had grown up around it began to unravel. Politics became divided between those who sought to preserve the New Deal consensus and those who sought to destroy that governing framework.

The impasse was broken in the 1990s with the emergence of New Democrat Third Way policies promoted by the Clinton administration. Breaking with "tax and spend" policies that stressed wealth redistribution, the New Democrats embraced pro-growth economics centering on fiscal responsibility, trade and

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competitive markets at home, public investment in technology and education, and a work-based social policy.

To be sure, some in the Democratic party cling to the old ways. Some decry the restoration of fiscal discipline, demanding that budget surpluses be spent now to pump up consumer demand rather than buy down the national debt. Others resist efforts to modernize and "reinvent" government, bring true accountability to our public schools, and replace an archaic "command and control" model of regulation with flexibility and incentives for innovation. The left's most serious challenge to today's economic progress, however, is its campaign to stop trade and global economic integration in their tracks.

Just as the populists aligned with the Democratic standard-bearer William Jennings Bryan in the 1890s sought to resist the onslaught of industrialism and preserve small farms and merchants, the new populists on the left, whether protesting the WTO in Seattle, opposing genetically modified organisms, or lobbying against meaningful public school choice and accountability, also resist the changes stemming from a New Economy. They seek to bring back the glory days of stable jobs at big corporations; blue-collar manufacturing (and family farms); strong unions; dominant central cities; big national government; and a national, as opposed to global, economy. They argue that the New Economy has failed American workers, leading to declining wages, increased income inequality, and higher levels of uncertainty and risk.

In contrast, the right sees in the New Economy a pretext for returning to the laissez-faire nostrums of the past. Instead of crafting a new governing agenda to meet New Economy challenges, they have focused their energies on tearing down the old framework: through budget-busting tax cuts, attempts to weaken government, and gutting social regulations. They believe, in the words of James Glassman, a leading conservative commentator, that "Americans are returning to values and ideas associated with the Republican Party, which dominated political life from the 1880s to the early 1930s."

Democrats today should take their cue not from the Bryan populists who sought in

1890s: William Jennings Bryan's populists railed against the industrial revolution, keeping Democrats in the political wilderness for two decades.

1930s: Roosevelt's New Deal Democrats knew that the new national economy required a stronger national government. Their politics dominated for over 30 years.

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vain to stop economic progress but from the progressives who, during the presidency of Woodrow Wilson, worked to promote economic change and harness it to broader public purposes.

The Progressive Case for the New Economy

While the new populists argue that the New Economy is a bad deal for American workers, it in fact promises to unleash liberating and fundamentally progressive forces. These include:

Higher wages. Powered in part by the information technology revolution, the New Economy will enable American workers to see their standard of living increase the way it did in the three decades following World War II. We have seen five straight years of strong productivity and wage growth (over double the rate in the '70s and '80s) across all income levels. As this level of wage and productivity growth continues, within a decade we can expect workers to have not only higher incomes but a reduced work week, expanded vacations, and an overall increase in the time they can spend with their families.

Better jobs. The New Economy is providing a chance for many workers to move from work that numbs the mind and strains the back to work that stimulates thought and affords continuous learning. An increasing share of jobs require not only more education but also higher technical skills. In manufacturing, for example, all of the net job loss over the last 25 years has been in low-skill jobs, as automation and trade have resulted in a more skilled and knowledge-based manufacturing sector. And service jobs are better too. The old complaint that workers are losing good manufacturing jobs only to take bad service jobs is no longer valid. According to a recent study by Michael Calabrese at the Center for National Policy, the average job lost in manufacturing in the last three years paid less than the new jobs added in the service sector.

Liberating work. The New Economy enables workers to shed their old role as faceless, interchangeable parts and reclaim the independence and dignity of self-managing workers. As a result, there is a chance to bring about a democratic revolution in our workplaces, as the lines blur between bosses and workers and everyone becomes a problem-solver and a stakeholder in the common enterprise. More and more New Economy companies shift authority to front-line workers; replace bureaucratic "assembly lines" with self-managed cross-functional teams; organize work in ways that rely on workers' skills; and replace elaborate work rules with extensive cross-training, flexible work assignments, and broadened responsibilities. And as a recent survey of young workers by the AFL-CIO found, workers want to work in such environments, even if they have to sacrifice some security.

More stakeholders. The New Economy offers a chance to democratize the market economy by enabling every worker to become an owner of capital. In the old economy, stock options were mainly the prerogative of senior executives. Not any more. In the United States, almost 20 percent of workers are now eligible to receive stock options and many more own stock directly through retirement plans.

Empowered individuals. Finally, the New Economy provides a chance to shift control over vital information from central bureaucrats and technocrats to ordinary citizens armed with inexpensive computers and the Internet. It has the potential to give people direct access to medical information that can help them take charge of managing their own health; to strengthen the self-governing capacities of our people and communities; and to bypass professional providers of social services, empowering poor and needy Americans directly with the information, resources and choices they need to take control of their own lives.

As the New Economy takes hold, it will be harder and harder for the new populists on the left to seek a return to the old economy and the old policies supporting it. An increase in wages across the board, and the evidence that the entrepreneurial, technological, and global economy is leading to prosperity, are already taking the wind out their argument. But it will also be harder for the radicals on the right to sustain their anti-government stance as we

"While the new populists argue that the New Economy is a bad deal for American workers, it in fact promises to unleash liberating and fundamentally progressive forces."

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DIGITAL EMPOWERMENT: Computers and the Internet empower not only companies, but also individuals. That's why more students and scientists will study in labs like this one.

"If the Democratic Party is to be the party that shapes the New Economy in the national interest, its most important task is to craft a progressive economic policy framework that will encourage a new era of faster and broader growth in Americans' incomes."

re-engineer government and its critical role in knowledge investment becomes clear.

A New Economic Policy

If the Democratic Party is to be the party that shapes the New Economy in the national interest, its most important task is to craft a progressive economic policy framework that will encourage a new era of faster and broader growth in Americans' incomes, while at the same time investing in education, training, and other means to move more working Americans into the New Economy's winner's circle. A knowledge-based, innovation-oriented policy framework for the New Economy therefore should rest on six pillars:

1. Fiscal restraint that recognizes that government must live within its means.
2. Energetic U.S. leadership to expand trade and investment within a rules-based system of global economic competition.
3. Targeted investments in the new economic foundations, specifically education, training, and scientific and technological research.
4. An open and flexible regulatory regime that supports growth and innovation, including policies to support the Internet revolution.
5. Policies to enable American workers to have the tools they need to navigate, adapt, and prosper in a continually changing economic environment (e.g., unemployment insurance, portable pensions and health care, and lifelong learning).
6. Reinvention — and digitization — of government to make it as fast, responsive, and flexible as the economy and society it interacts with.

If Democrats can embrace the liberating and progressive possibilities inherent in the New Economy and at the same time adopt policies that support its growth and help workers prosper and adapt, their party will be in the majority for decades to come. ■

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Rules & tools for a changing world

In a creative but sometimes disruptive era, we need a framework for advancing technology and globalization.

"New Economy organizations increasingly drive responsibility down to the front line of services or production and give workers more authority."

The new century finds Americans once again in the vanguard of economic progress. Over the next decade, the challenge facing progressives is to ensure that our social progress does not lag behind. As we build a New Economy on the twin pillars of technology and globalization, therefore, we must also equip working Americans with the new tools of economic success in the Information Age and write new rules of the road for governing global trade and competition.

In this issue of BLUEPRINT, we define the new tools and rules Americans need to master the challenges of the New Economy. But first, it helps to understand the forces that are transforming what we do for a living and how we do it.

For most Americans, the New Economy's most visible symbol is the revolution in computers, telecommunications, and the Internet. By the end of this year, close to half of all American households will be on line and e-commerce will have grown to more than $39 billion.

The story of how businesses are changing is by now legendary: the new rules of the game require speed, flexibility, and innovation. New, rapidly growing companies are selling to global markets almost from their inception, and established companies are being forced to reinvent their operations to stay competitive. This is the part of the New Economy that was born in Steve Jobs' and Steve Wozniak's garage, at Bell Labs, Xerox PARC, and in the trunk of Michael Dell's car. It is Silicon Valley, Netscape, Yahoo! and the next New Thing.

But the New Economy is about more than high technology and the frenetic action at the cutting edge. Most firms, not just the ones actually producing technology, are organizing work around it. The New Economy is a metal casting firm in Pittsburgh that uses computer-aided manufacturing technology to cut costs, save energy, and reduce waste. It is an insurance company in Iowa that uses software to flatten managerial hierarchies and give its workers broader responsibilities and autonomy. It is a textile firm in Georgia that uses the Internet to take orders from customers around the world. It is a farmer in Minnesota who sows genetically engineered seed from a tractor with a satellite-based geopositioning system.

And it is as much about new organizational models as it is about new technologies. New Economy organizations increasingly drive responsibility down to the front line of services or production and give workers more authority and encourage them to work in self-managed teams. Another striking characteristic is occupational change. Between 1969 and 1995, virtually all the jobs lost in the production or distribution of goods have been replaced by office jobs. Today, almost 93 million American workers (which amounts to 80 percent of all jobs) do not spend their days making things — instead, they move things, process or generate information, or provide services to people.

The degree to which dynamism, constant innovation, and adaptation have become the

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norm is among the most striking structural changes in the New Economy. Nearly three quarters of all net new jobs are being created by 350,000 new fast-growing "gazelle" firms. Almost a third of all jobs are in flux (either being born or dying, added or subtracted) every year. This churning of the economy is being spurred by new technology, but also by increasing competition, a trend that is, in turn, partly a product of increasing globalization. Between 1960 and 1997, U.S. imports and exports grew one-and-a-half times faster than GDP.

Rapid economic change, of course, is disruptive as well as creative. For many Americans, the New Economy means less job security, the heightened risk of being downsized, or discovering that their skills are no longer in demand. These new economic anxieties have manifested themselves especially in the political backlash against trade expansion and international bodies like the World Trade Organization, the International Monetary Fund, and the World Bank.

Though their analysis of economic cause and effect is often wrong-headed and conspiratorial, the anti-globalists are right in one respect: the New Economy demands new responses not only from businesses and workers, but from government. To extend the New Economy's long boom, to significantly raise incomes and expand opportunity of all Americans, and to sustain public support for the economic policies that undergird our success, we need public action on two broad fronts. The first is a new domestic agenda aiming at equipping working Americans with new tools to take control of their own careers and economic security and providing American businesses with tools they need for productivity and growth (e.g., a skilled workforce, research and technological innovation, access to global markets, and low interest rates). The second is strong U.S. leadership to craft new rules governing global trade and competition.

In this issue of BLUEPRINT, we lay out the tools that will allow all Americans to share in the New Economy's rewards, as well as the rules that will ensure that trade and global integration lead to higher living standards here and abroad, as well as higher standards for labor, the environment, and human rights.

—Robert D. Atkinson

DIGITAL FARMING: Using Global Positioning System (GPS) satellites to map his land, this farmer in Crookston, Minn., can plot soil samples to within an accuracy of five feet. His computer then decides how much of which kind of fertilizer to use.

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CENTER OF THE CIRCLE: Financial markets, like the New York Stock Exchange, have become wealth-creation mechanisms for millions — but not without risk. Washington Governor Gary Locke (above right) discusses employment retraining with former beverage packaging workers.

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Let's expand the winner's circle

by Will Marshall

America's long-booming economy is spawning jobs at a furious pace, driving unemployment down to levels not seen since the flush times of the 1960s. Thanks to technology, trade, and sound fiscal and monetary policies, we seem to have found the holy grail of economics: full employment without inflation.

Yet for surprisingly many Americans, today's swelling prosperity also means dwindling job security. That's because the new economy is destroying jobs at only a slightly less feverish pace than it is creating them. Indeed, many U.S. companies are firing some people even as they hire others to adapt to fast-changing markets and reorient their operations around work teams, information technology, and the Internet.

In 1999, U.S. firms announced 675,000 layoffs — up from only 111,285 in 1989, reports Challenger, Gray & Christmas, a Chicago consulting firm. What is true of jobs is also true of enterprises. According to the Progressive Policy Institute's *New Economy Index*, between 1994 and 1995, 695,000 businesses were born and 587,000 died, yielding a net growth of 108,000 new ventures. By comparison, in 1975 there were only 337,000 business births and deaths combined. While the Index finds a strong correlation between all this "creative destruction" and faster economic growth, it also notes, "The faster pace of job churning has undermined the predictability and stability of old economic arrangements and has increased the insecurity faced by workers."

Every investor knows that if you want bigger returns you have to be prepared to take bigger risks. But most Americans are not accustomed to playing casino capitalism with their jobs. As *Business Week* economist Michael Mandel has observed, our labor markets are beginning to resemble our financial markets — volatile, risky, exhilarating, and frightening. For many Americans, especially tech-savvy younger workers, the shake-up of the old occupational order opens exciting vistas. For many others, especially older, less educated workers in shrinking blue-collar industries, it ushers in an "era of permanent anxiety."

Economic change has always created losers as well as winners. What's different today is that information technology (IT), "high performance" work organizations, and globalization are rewriting the rules of economic competition. In the process, they are dissolving the social bargains that historically have buffered average working families against the cruelties and instability of industrial capitalism. After World War II, public policies and informal understandings between big business, big labor, and big government combined to promote mass upward mobility, smooth out business cycles, and cushion families during economic downturns. But the old business-labor-government paternalism can no longer deliver economic security in exchange for workers' loyalty. No matter how enlightened a corporation, how militant a union, or how caring a government, they can no longer guarantee anyone a particular job for life in today's churning global marketplace.

This newfound sense of economic

For tech-savvy younger workers, the New Economy opens up exciting vistas. For many others, it ushers in an era of permanent anxiety. To move more Americans into the winner's circle demands a fresh and imaginative public response.

Will Marshall is president of the Progressive Policy Institute.

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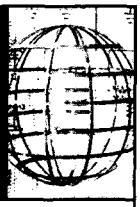
Building a rapid reemployment system

by Kenan Patrick Jarboe



The New Economy affects all workers

vulnerability in large part explains the backlash against globalization that torpedoed last year's World Trade Organization meeting in Seattle and now imperils efforts to open China's markets to U.S. goods and services. While most Americans favor expanded trade and realize that global integration cannot be stopped, many also believe that their government is not doing enough to equip ordinary families with new tools for economic success and security.

They are right. The power of global markets has grown stronger while the ability of big institutions, including government, to cushion working families from economic blows has grown weaker. The resulting imbalance in the way the New Economy distributes its risks and rewards demands a fresh and imaginative public response.

Patching holes in an industrial-era safety net won't do. In fact, it's time to junk the "safety net" metaphor entirely and replace it with the image of the trampoline. What the New Economy demands is a system of supports that not only catch people when they fall but propels them into new jobs and careers. Instead of a new top-down distribution scheme in which the winners in global competition compensate the losers, we need to create public-private systems to move more Americans into the New Economy's winner's circle.

We should start by recognizing that the requisites of economic security have changed dramatically over the last two decades. If security once meant stable jobs and unchanging careers, it now means lifelong learning to ensure that workers can continually acquire skills that command good wages. Instead of depending on big institutions, today's workers need to be more self-reliant, more flexible and more mobile. And although middle class status has been measured mainly in decent pay and benefits, working families increasingly aspire as well to ownership of wealth-producing assets.

How can we move more Americans into the global economy's winner's circle? Here are three key steps:

Implement the Workforce Investment Act (WIA) Properly at the State and Local Level and Expand its Funding.

While the WIA provides new tools and some flexibility for states and local governments to craft a new workforce system, there is no assurance that states and localities will do more than recreate the old system, with all of its limitations. States and localities need to use the promise of WIA to create a truly effective re-employment system. Moreover, federal funding for training has declined by 8 percent over the past few years, while the number of workers undertaking training has increased by 29 percent. Federal funding for training needs to be increased as part of the WIA.

Undertake a Fundamental Re-examination and Strengthening of the Unemployment Insurance System.

The review process should consider options such as a system of insurance to temporarily supplement the wages of unemployed workers who take lower-wage jobs. Other ideas include allowing unemployment insurance benefits to be taken in a lump sum to start a new business, tying the funds to enrollment in a training program, and expanding coverage for part-time and contingent workers. In addition, unemployment insurance records and statistics need to be incorporated into the rapid re-employment system to provide seamless customer service and a performance measurement system.

Consolidate the Various "Adjustment Assistance Programs" into a Single, Broad-based Adjustment Program.

In the New Economy, where all Americans are potentially affected by rapid economic change, it no longer makes sense to limit adjustment assistance only to those affected directly by a government action (e.g., defense cutbacks, a new trade deal). The various programs should be consolidated into the single WIA system. This consolidated, comprehensive system should be locally based, well-financed, and linked to ongoing efforts at skill upgrading, and it should use public-private partnerships to marshal government resources.

Kenan Patrick Jarboe is president of Athena Alliance, a New Economy think tank.

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1) Create a comprehensive public-private system of lifelong learning. As computer networks permeate every sector of the economy, as "high performance" workplaces based on teams and information-sharing replace the old corporate hierarchies, and as the nature of work itself shifts from routine functions to more general problem-solving, the demand for highly educated and skilled workers is rising. And since career paths today are far less stable than before — most job growth occurs not in the familiar *Fortune* 500 corporations but in fast-growing "gazelle" firms less than five years old — education and training can no longer be seen as something that happens "once and for all."

If we cannot restore the promise of lifetime employment, we can offer everyone access to lifelong learning. As Italian Premier Massimo D'Alema, a former communist, put it during a DLC Third Way forum last year, in the New Economy, "skills are the highest form of social protection."

Company strategies are shifting from the old paternalism — "we'll take care of you" — to a new ethic of worker self-reliance: "we'll help you to take care of yourself." Consider IBM, once the prototype of white-collar aspiration, with close-cropped "organization men" dutifully climbing the corporate career ladder until retiring with a generous company pension. Forced by fierce competition to downsize and restructure itself for greater speed and agility, "Big Blue" now offers workers a different deal. Its "career fitness" plan helps employees acquire new skills and aim for better jobs within IBM or even at other companies. In this way, the company gets a more capable and flexible workforce; its employees get skills they need to enhance their future employability.

As this example suggests, America really has two job training systems. One, operated by employers, provides relevant job skills but does not help everyone. The other, run by government, is comprehensive but inspires little confidence among employers or workers. Government can use various

Creating lifelong learning

by Kenan Patrick Jarboe

Community partnerships can upgrade skills

Expand Funding for Lifelong Learning.

One proposal is to create Lifelong Education Advancement Pursuit (LEAP) loans, modeled on the program that has helped finance the educations of so many American college students. Through these LEAP loans, people with household incomes below a certain threshold would be eligible for a certain amount of financing over their lifetime to pay for qualified training expenses. The loans would be provided at subsidized interest rates and carry long maturities, would defer repayment for a fixed period, and may have repayment linked to the borrower's income level. Such a program is already being test-marketed by the Student Loan Marketing Association, and these efforts should be supported and expanded. Another idea is tax-preferred savings accounts to encourage people to set aside funds to enhance their career skills.

Undertake Tax Reform to Promote Human Capital.

Under current tax law, companies can exclude from taxable income the cost of an employee's educational benefits (e.g., tuition reimbursement) up to $5,250 per year. However, this provision, known as section 127, is temporary and subject to congressional renewal. It should be made permanent. Moreover, the tax code should be changed so that no such benefits qualify as a deduction unless comparable training opportunities are available to all workers, not just those at the professional and managerial level. In addition, Congress should provide tax credits for company investments in basic skills and literacy training. Companies are increasingly having to cope with the failures of our public school system. We should give them incentives to invest to get workers up to basic skill levels.

Public-Private Partnerships for Training.

Business-led community partnerships can be successful in upgrading worker skills, helping get workers into new and better jobs, and modernizing company operations to take advantage of those upgraded worker skills. For example, the Wisconsin Regional Training Partnership, a consortium of firms and unions in the Milwaukee area, provides worker training to current workers as well as displaced workers, assistance with modernizing to its member firms, and training in both school-to-work and welfare-to-work programs. The federal government can be a catalyst in creating such partnerships as regional skills alliances (RSAs) and community workforce partnerships (CWPs).

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policy levers to organize a lifelong learning system that combines the best features of the two systems. For example, it can offer workers low-interest loans for education and training. It can change tax policy to assure that all workers have equal access to taxpayer-subsidized training. Instead of offering firms unlimited tax deductions for training top executives, we should adopt a non-discrimination rule that requires any firm providing tax-free training to its managers and professionals to make comparable opportunities available to all its employees. And it can foster industry-led "regional training alliances" that get employers to invest collaboratively in upgrading the skills of the local workforce.

2) Build a "rapid reemployment" system for U.S. workers. We also need to transform our lackluster job training and employment programs into a market-driven "rapid reemployment" system. In 1998, President Clinton signed the Workforce Investment Act (WIA), which despite a modest price tag (about $9 billion) contains the seeds of a radical redesign of labor market policies based on such Third Way principles as choice, information, and accountability. Using information technology to break down bureaucratic barriers, it creates a nationwide system of one-stop centers where workers and businesses can access all training and employment services at one location. WIA expands workers' control through individual training accounts that allow them to choose the training services that best suit their needs. Finally, it requires report cards on organizations that supply training so that workers can make informed choices based on performance rather than promises.

Passing WIA, however, was only the first step. To realize its potential for creating a market-driven system of labor exchange, we need to take additional steps. First, expand its funding to accommodate the increase in dislocated and disadvantaged workers seeking training. Second, use the extra money to encourage the states to take full advantage of WIA's flexibility to break down bureaucratic barriers rather than reproducing the old public system. Third, link unemployment insurance to the rapid reemployment and training system and make it easier for part-time and low-paid workers to qualify for support when they are laid off through no fault of their own. Fourth, develop public-private alliances that help companies craft training regimes for "incumbent" workers.

A key challenge in designing the system is to avoid duplicating or competing with the private sector. For example, the number of people looking for jobs on-line has exploded, as more companies post their openings on sites like CareerBuilder.com, Monster.com, and Jobs.com. The emerging one-stop system should focus on those least likely to take advantage of private, on-line labor exchanges, such as dislocated and low-skilled workers, including welfare mothers.

3) Promote worker empowerment and ownership. The essence of a progressive strategy for expanding the winner's circle is to enable working Americans to share in the rewards as well as risks of global competition.

Government, for example, can use tax policy to encourage businesses to adopt performance-based compensation and equity-sharing to give all workers — not just executives — incentives to do their jobs better as well as a chance to share in their company's success when they do. When wage-earners change jobs, they should have the same control as top executives over the principal sources of family security such as health insurance and retirement income. For example, we can shift control of medical insurance from employers to workers by offering the latter the option of using tax credits to buy their own coverage. Similarly, we should replace the government's insanely complicated welter of tax-exempt retirement savings programs with a single, universal pension that workers can take from job to job.

If the New Economy demands greater economic self-reliance, it also promises to liberate working Americans from reliance on big institutions for their livelihood and security. It presents a chance to move from work that numbs the mind and strains the back to work that stimulates thought and affords continuous learning. It promises to help many Americans regain the independence and dignity of pre-industrial workers, with new opportunities to become owners as well as wage-earners.

To realize this promise, we should replace policies that transfer wealth with public strategies that help every American family build financial assets. For example, PPI has long championed Individual Development Accounts, which match and subsidize the savings of very-low-income Americans. We should embrace President Clinton's proposal for retirement savings accounts to encourage low-income families to save. Finally, we should create personal savings accounts funded by a small portion of the Social Security payroll tax, to promote private saving for retirement and enable all Americans, not just a privileged investor class, to reap higher market returns.

Nearly half of U.S. households report holding some stocks or bonds. The richest half of the population owns most of these capital assets; what's needed now are progressive policies that extend the same opportunities to everyone else.

In the 20th century, progressives heaped calumny on market capitalism as a soulless system for exploiting

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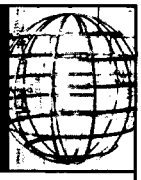
workers and searched vainly for an alternative. In the 21st century, progressives should instead embrace a new vision of democratic capitalism, based on the adage attributed to former Democratic Sen. Russell Long of Louisiana: "The only problem with capitalism is that there are not enough capitalists." ■

Promoting worker empowerment

by Kenan Patrick Jarboe



Gaining a greater stake in the workplace

Portable Health Insurance.

Although job-based health insurance covers most Americans, workers should have portable benefits that enable those who are changing jobs or who are laid off to retain their health insurance coverage during the transition. To support these workers and those whose employers do not offer insurance, this segment of the population should be able to purchase its own coverage with help from a refundable tax credit.

Social Security Reform and Portable Pensions.

Restructuring Social Security to place the program on sound fiscal footing should include changes in our retirement system that promote self-reliance, greater personal responsibility, and a more reasonable tax burden on working families. In addition, while many workers have portable pensions that allow them to roll over their pension assets when they change employers, this option should be available for every American. As more workers spend less time with any one employer, we should reduce time requirements for vesting in company-sponsored private pension plans.

Performance-Based Compensation, Equity-Sharing, and Gainsharing.

To provide average Americans with more opportunities and incentives to increase productivity and innovation on the job and gain a greater stake in the workplace, firms should be encouraged to establish reward systems that are internally equitable, competitive, and linked to the long-term performance of the firm. Extending the non-discrimination rule that is currently used for health care coverage and pension contributions to this area should be examined. Specifically, when a firm provides tax-favored, performance-based bonuses to executives, all employees should be eligible to earn such compensation.

Increased Long-Term Savings by Americans.

Already, 401(k) programs, IRAs, and Roth IRAs have helped boost the savings of millions of Americans. President Clinton has proposed creating Universal Savings Accounts (USAs). Individuals contributing to these USAs would be eligible for a refundable tax credit, and in some cases the federal government would match a person's savings contribution up to $300 a year. Even such modest sums can play an important role in strengthening economic security and providing seed corn for entrepreneurial activity, particularly for low-income households.

Review and Modernization of Labor and Employment-Related Law.

This should explore the entire realm of public policy concerning alternative work arrangements, including the impact of transportation and technology policies on telecommuting and the effect of regulations and tax policy on contract work and self-employment.

New Roles for Unions.

Unions rooted in New Economy occupations and industries, rather than in individual firms, could promote training and peer learning. They could make broadly defined occupations the new locus of job security. Unions that cut across employers could help provide portable pensions and health care. Going one step further, unions could offer a version of wage insurance.

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Spending smart

by Stephen S. Cohen, J. Bradford DeLong, & John Zysman

The United States today has the healthiest and most productive economy in the world. Surely some of our high-productivity information and communications technology-based "E-conomy" exists today because of luck. But in large part it exists because of skill — both the skill of America's entrepreneurs, engineers, and technicians and the skill of America's government. For over the past 50 years we in America have by and large gotten policies right, thus enabling America's laboratories to develop information technology and — just as important — enabling America's businesses to learn how to use information technology throughout the economy.

In the old economy, government got policy right under two important headings: resources and rules. America invested the resources in fundamental research, advanced engineering, and education in science and engineering to create the intellectual, human, and financial capital needed for the development of information technology. America chose the right rules — the systems of public and private governance and market organization required to make the market for information technology work — to create and maintain open institutions and open competition.

In the New Economy, government still needs to get the resources and the rules right, though they will be different. This means increasing investments in knowledge — research, education, and skills — the building blocks of the New Economy.

The success of this policy can be seen in many different areas. The Internet, of course, is the premiere example. The Defense Advanced Research Projects Agency (DARPA) developed the architecture of the network and later transferred it to the National Science Foundation (NSF) for first broad educational and later general (including commercial) use. This public investment in resources sparked off the Internet explosion because it was coupled with the right rules: deregulation of telecommunications and of important user industries such as finance and airlines that opened the way for competition by firms eager to experiment in providing innovative services. The ultimate

Stephen S. Cohen, J. Bradford DeLong, and John Zysman are professors at the University of California, Berkeley. A more fully developed version of this article can be found at the Web site of The Berkeley Roundtable on the International Economy, (BRIE), http://brie.berkeley.edu/BRIE.

INVESTING IN KNOWLEDGE: Government's role is to set rules, create tools, and channel resources into the goods and services that accelerate growth and widen participation. Supporting advanced research is a pillar of the New Economy.

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Wise government investment can accelerate the pace of the New Economy, and broaden participation in it.

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FEDERAL FUNDING: Public investment in basic science led to the invention of the transistor, the Internet, and the *communications satellite*, like this Telstar prototype being tested in 1962 at Bell Labs, then the heavily-funded research arm of AT&T.

market result was the Internet boom.

Another breakthrough example is the semiconductor. Two generations ago the transistor was developed at Bell Labs, the heavily funded research arm of the publicly regulated telephone monopoly, AT&T. A government mission — the military's needs for miniaturized electronics — created a launch market for the new technology and forced diffusion of production technologies and basic know-how. Government rules — in this case antitrust policy — obligated AT&T to actively make the technology available to all comers. The result was a merchant semiconductor industry, with firms like Fairchild, Intel, and AMD making their living by teaching other firms how to exploit the possibilities of the new technologies. Public investments spawned new technologies; public rules created incentives that produced the extraordinary pace of development, innovation, and diffusion.

The government's role in these technologies is not anomalous. In fact, the list of technologies tracing their origins to government support for research or procurement is extensive and powerful.

Today, however, things are different. The U.S. military is no longer the dominant lead user. AT&T is no longer a monopoly required by antitrust to allow others to adopt its technology. But the twin principles still apply — that the U.S. government needs to do its part to help provide the resources to fuel the further development of our E-conomy and that the U.S. government needs to make sure that the rules that govern the E-conomy promote both open competition and open institutions.

In today's context, government policy toward resources needs to focus not on physical investment or the cost of capital but on scientific and technical research and human resources. The elimination of the federal budget deficit of the 1980s had the predicted macroeconomic consequence of erasing the cost-of-capital disadvantage under which American firms had suffered. The explosion in venture capital has meant that high-tech innovators are by no means starved of access to capital. However, there are significant weaknesses to be found in research, education, and training that threaten to slow future economic growth.

Scientific and technical research is a key driver of growth in this New Economy. Today's high technology is not the work of self-taught tinkerers. Clever engineers working in family garages stand on the shoulders of fundamental, formal, largely academic scientists who created the enormous body of research and development on which the E-conomy rests. Basic research creates the next technological frontiers. Being close to early-stage research — having a constant flow of personnel back and forth — is a powerful aid to firms seeking to live on the technological frontier.

Yet companies disciplined by modern capital markets simply cannot do basic research on the scale we need. Because it is next to impossible to keep fundamental results and principles the intellectual property of a single organization, conducting basic research in private enterprise is a costly drain on resources that doesn't help the bottom line. As a result, virtually all corporate-funded R&D is for later-stage applied research and product development. Only governments — or giant, enduring monopolies like the old Bell System — can make long-term, open-ended investments in fundamental research.

Though it may be difficult to imagine, we are only at the beginning of the technological revolution that is propelling our economic transformation. Yet right now we appear to be eating our research seed corn: outside of the biological sciences, government-funded

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research has been squeezed as "discretionary spending." Government has over the last decade cut back its research funding dramatically, and congressional budget projections suggest that such cuts will continue.

To counter this trend, government should significantly reverse the slide in federally funded research, particularly in the non-biomedical area that has seen an absolute decline. Federal R&D funding should be at least as large a share of GDP as it was in the 1960s. To achieve this goal we must double research expenditures (an increase of approximately $35 billion per year). The federal government should also foster R&D by industry through the use of such devices as the R&D tax credit.

The growth of the E-conomy requires human expertise and talent to develop, apply, and use new frontier technologies at three levels. First, it requires brilliant, highly trained research and development engineers. Second, it requires an army of the technologically literate and technologically numerate to apply and work with new information and communications technologies in all sectors of the economy. Third, everyone needs to know enough about how our modern information and communications technology systems work in order to make effective use of them both at work and at home.

In the 1950s and 1960s the United States had the highest proportion of its labor force educated in college and beyond. But with the rapid growth in the 1990s of knowledge jobs that require more education, not enough Americans have been finishing college. Moreover, there has been a decline in the share of American college graduates getting science and engineering degrees, particularly engineering degrees.

Moreover, while the United States possesses some of the best research universities in the world, they sit atop a pyramid of much less demanding colleges and primary and secondary education systems that all agree are much less effective than they could or should be. Finally, the fact that companies and the federal government are spending less as a share of GDP on training than they were a decade ago means that workers are not getting the skills they need to get ahead and companies are not getting the skilled workers they need to prosper.

In the E-conomy the consequences of these shortfalls could be disastrous. Rising differences in wages between those with more formal education and those with less, and between those with more technology-using experience and those with less, are indicators of the magnitude of change and of the potential long-run severity of the problem.

Consider the experience of mid-nineteenth-century Britain, then the world's only superpower and the heart of the first two generations of the industrial revolution. Few in Britain's power elite noted or cared that the British government was not building schools for the children of workers migrating to new industrial jobs in the cities. Yet it was clear to keen-eyed observers even then that industrial technology was becoming more closely linked to literacy and to technical knowledge. By the end of the nineteenth century the lack of a well-schooled workforce meant that the post-steam-engine technologies of electricity, metallurgy, and chemistry found themselves much more at home in late-nineteenth-century Germany — where investments in schools had been made. Thus Britain began its half-century death-struggle with anti-democratic German regimes, having already squandered a large initial edge in technology and productivity.

Moreover, what was perhaps sufficient 25 years ago as an average level of educational attainment during secondary school is no longer acceptable. Compared to the benchmark provided by other nations' secondary educational systems, the U.S. system looks more and more inadequate. It is hard to see how an economy can stay rich and powerful when its workers lack the education of its competitors. Selective immigration, attracting and admitting the best and the brightest of other nations, is now, de facto, our stopgap economic solution to this problem. Any approach based on successful educational reform can only be a long-term one.

By focusing on the creation, diffusion, and adoption of knowledge — the central building block of the New Economy — government and industry together can provide the indispensable foundation on which to build continuing growth and prosperity. ■

"Compared to the benchmark provided by other nations' secondary educational systems, the U.S. system looks more and more inadequate. It's hard to see how an economy can stay rich and powerful when its workers lack the education of its competitors."

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A new progressive budget for a New Economy

by Jeff Lemieux

The money may be burning a hole in politicians' pockets, but here's a plan for long term investment, wise tax cuts, and paying down the debt.

After a 30-year absence, fiscal responsibility is back in style in Washington. The federal budget debate today revolves not around cutting programs but around how to spend an enormous projected surplus. And therein lies a dilemma: can lawmakers stay the course of fiscal discipline with $3.2 trillion burning a hole in their collective pockets?

That's the amount of surpluses that budget forecasters estimate will materialize between 2001 and 2010, if no new tax cuts or spending entitlements are enacted. Most of that 10-year total — $2.3 trillion — will come from Social Security, which is collecting more in payroll taxes than it is paying out, on the theory that the excess is being "saved" to help finance the baby boomers' impending retirement. The non-Social Security or "on-budget" surplus accounts for the remaining $890 billion.

Politicians are already fighting over how to spend this windfall, with conservatives demanding tax cuts that would make Ronald Reagan blanch, and liberals humming "Happy Days Are Here Again." Instead, we need to strike a new balance between continued fiscal restraint and the investments necessary to equip all Americans to prosper in the New Economy.

This article proposes a New Progressive Budget for the New Economy. It assumes that a vibrant, high-productivity economy based on knowledge and market competition is a prerequisite for social progress. And it demonstrates that fiscally responsible, pro-growth economic policies can expand the winner's circle of American prosperity.

The New Progressive Budget is both sharply progressive and growth-oriented. It targets workers with modest incomes and the poor struggling to climb into the middle class. It focuses on areas in which the federal government can help propel the New Economy and help workers gain skills and flexibility, build wealth and security, and adapt to the pace of Internet time.

The New Progressive Budget addresses urgent national priorities — especially for health insurance, retirement savings, research, education and job training, and working families — without sacrificing economic growth or neglecting the need to prepare for the future. It is guided by four basic principles for budgeting in an era of surpluses:

1. paying down the national debt;
2. preparing for the retirement of the baby boom generation;
3. investing for growth and opportunity;
4. harnessing tax cuts for the future, not current consumption.

1. Paying Down the National Debt

Reducing the national debt will help to propel the New Economy and prepare America to meet the exploding costs of Social Security and Medicare as the baby boomers retire. As the debt falls, interest rates will follow. Lower interest rates dampen mortgages,

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Pay down the national debt: $2.6 trillion. Debt reduction is key to new prosperity. It lowers mortgage and other interest for working families, and makes capital available to businesses. Above: home construction in Nevada.

Prepare for Baby Boomers' Retirement: $138 billion. Our budget retools Industrial Era entitlement programs for the New Economy, while adding a Medicare drug benefit and help with long-term care insurance.

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rents, and car payments, leaving consumers more money for other things. Lower interest rates also mean more favorable capital markets for businesses.

By reserving $2.6 trillion of the projected $3.2 trillion in budget surpluses for debt payment, the New Progressive Budget puts us on a course to achieve President Clinton's goal of making American debt-free by 2013. It would slash the national debt to one-quarter of its current burden, from $3.5 trillion in 2000 to $900 billion in 2010. As a share of the economy, the debt would fall to less than one-sixth its 2000 level, from 36 percent of gross domestic product (GDP) to 6 percent in 2010.

"Medicare could be greatly improved without raising federal spending. A system of competing choices patterned after the health benefits available to federal employees will allow beneficiaries to save money for themselves and taxpayers."

2. Preparing for the Retirement of the Baby Boom Generation

The New Progressive Budget invests $138 billion to begin retooling our industrial era entitlement programs for the New Economy. It's true that paying down the debt will help the government finance the vast sums it will need to pay for Social Security, Medicare, and Medicaid when the baby boom generation retires. However, an improved financial position is not a substitute for modernizing entitlement programs so that future spending obligations will be easier for the next generation of taxpayers to bear.

Social Security: $118 billion. The New Progressive Budget earmarks $118 billion to match the retirement savings of low- and moderate-income workers. That investment would stimulate savings among those who currently save little and who would otherwise have limited prospects for building financial wealth. It could be designed as an expanded version of President Clinton's Retirement Savings Accounts (RSA) proposal.

The budget's retirement savings proposal is intended as only a down payment on the larger transition costs of progressive, comprehensive Social Security reform. Such reform should incorporate the following elements:

- significant new opportunities for lower-income workers to save.
- new minimum benefits, so that no retirees who worked will live in poverty.
- to the extent possible, no reductions in benefits of current retirees.
- no financial gimmicks or assumptions that stock market returns alone will solve Social Security's financial problems.
- to keep Social Security viable, an exchange of new investment opportunities for a reduction in promised benefits in retirement (especially for those with higher incomes).

Medicare: competition plus prescription drugs. Medicare, the second-largest entitlement, should also be modernized to provide better benefits (especially for prescription drugs), more choices, and real competition to restrain costs. However, Medicare can be greatly improved without raising federal spending. A system of competing choices patterned after the health benefits available to federal employees will allow Medicare beneficiaries to save money for themselves and taxpayers. Benefits should be enhanced as those savings accrue. Therefore, Medicare reform can proceed in a budget-neutral manner. (A bipartisan group of senators led by Sen. John Breaux, D-La., has developed a preliminary proposal for Medicare reform and prescription drug benefits. At this time, estimates of whether or not that plan will achieve the desired budget neutrality are incomplete.)

Insurance for long-term care: $20 billion. The New Progressive Budget includes incentives for the purchase of insurance for long-term health care. Encouraging more private insurance now should help reduce federal and state spending for Medicaid, the third-largest federal entitlement, after 2010.

3. Investing for Growth and Opportunity

Most of the budget's $564 billion in investment proposals are made through the tax code, with net tax cuts totaling $395 billion over 10 years. To maintain fiscal discipline, spending on defense and domestic spending would not exceed the inflation rate. In addition, the budget pays for major investments in education, research, and other items by limiting the growth of the federal bureaucracy. Overall, the net amount

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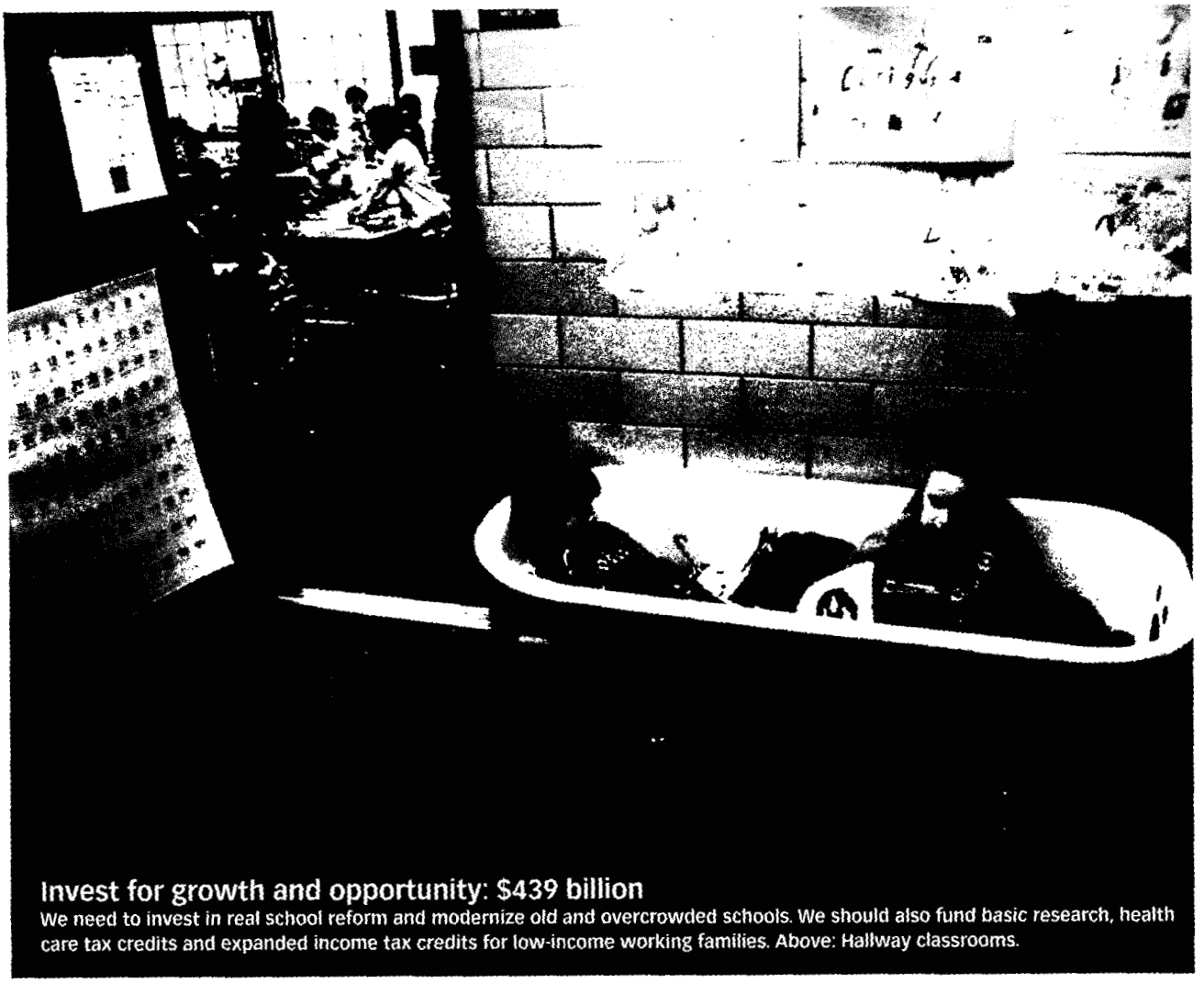

Invest for growth and opportunity: $439 billion
We need to invest in real school reform and modernize old and overcrowded schools. We should also fund basic research, health care tax credits and expanded income tax credits for low-income working families. Above: Hallway classrooms.

of new *discretionary* spending is zero. Increases in entitlements — automatic spending not subject to annual appropriations — would total $38 billion. The remaining $130 billion in spending consists of additional interest costs (compared with a baseline that has no tax cuts). The largest investments include:

Health care tax credits: $165 billion. The primary health investment is a new tax credit to encourage those currently uninsured to buy coverage. Expanding access to a wide choice of high-quality health plans — especially for families without access to health benefits at work — should be a top priority. To be effective, tax credits should ultimately fund at least half of the insurance costs of the most needy workers. Substantial subsidies will be needed to significantly reduce the number of uninsured and to be fair to low-income workers who currently have job-based coverage.

Research and technology: $95 billion. The New Progressive Budget would reform and extend the research and development tax credit and trim excise taxes on telecommunications. Those tax cuts would amount to about $45 billion over 10 years. Another $50 billion would boost federally sponsored research efforts and fund science and technology initiatives.

New funding for education: $85 billion. To encourage real school reform, new spending would be tied to accountability measures that gauge performance based on outputs (success) rather than inputs (costs). The budget would also give states and localities funds to build and modernize schools, to create smaller, more effective schools, and to expand national service.

"To encourage real school reform, new spending would be tied to accountability measures that gauge performance based on outputs (success) rather than inputs (costs)."

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Expanded tax credits for working families: $67 billion. The budget earmarks almost $50 billion to expand the Earned Income Tax Credit (EITC) and to expand and make refundable the child and dependent care tax credit. An additional $17 billion would support other initiatives for child care and transportation for poor working families.

Funds for worker empowerment and training: $27 billion. The New Progressive Budget adds more than $27 billion for several worker empowerment and training initiatives. Investments in lifelong learning, portable benefits, worker ownership, and other items would help equip all workers to benefit from the new opportunities that the New Economy has created.

4. Harnessing Tax Cuts for the Future, Not Current Consumption

Most of the investments in the New Progressive Budget proposal are tax cuts ($395 billion). Some are spending increases, and some are both. Official budget scorekeepers would classify the budget's refundable tax credits, like those for health insurance and the expanded EITC, partially as tax cuts and partially as spending increases. All investments that operate through the tax system are tax cuts to the recipients, however, and for simplicity, they are classified as tax cuts in the tables that describe the budget proposal.

The budget mostly avoids large tax cuts that would simply boost consumption. It provides substantial tax relief without stimulating consumption to a degree that would prompt the Federal Reserve to further raise interest rates to cool down the economy.

Overall Budget Impact

Table 1 shows how the investment and savings proposals in the New Progressive Budget sum together in budgetary terms. Holding the line on the cost of the federal bureaucracy helps pay for many of the new spending proposals so that the net increase in spending is very small. ■

Table 1. New Progressive Budget Proposals, by Category
(In billions of dollars)

	Fiscal Years, 2001–2010
Baseline Surplus, 2001–2010	
On-Budget	891
Off-Budget (Social Security)	2,308
Total	3,199
New Progressive Budget Proposals	
Health	187
Education	85
Social Security	118
Medicare	•
Research and Technology	95
Working Families	67
Environment	3
Worker Empowerment and Training, Trade	51
Tax Simplification and Fairness, Revenue Offsets	-20
Federal Employment and Administrative Overhead	-155
Interest	133
Total	564
Proposed Surplus	
On-Budget	446
Off-Budget (Social Security)	2,190
Total	2,635
Memorandum: Proposed Surplus with Social Security Reform	
On-Budget	446
Off-Budget (includes add'l debt service)	1,335
Total	1,780

Table 2. Tax Cut Package (In billions of dollars)

	Fiscal Years, 2001–2010
Health Tax Credits	165
New Retirement Savings	118
Research and Development/Telecommunications	44
Earned Income Tax Credit (EITC)	29
Marriage Penalty	24
Trade and New Economy Transition	24
Child and Dependent Care Tax Credit	20
Long-Term Care Insurance	20
Education Tax Changes	5
Environment	-10
Tax Simplification and Revenue Offsets (net)	-44
Total, Tax Cuts (net)	***395***

*See footnotes & details at www.dlcppi.org/texts/economics/2000budget_home.htm.

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What Works/From steel to silicon

How Bethlehem, Pa., moved into high tech/by Peter Ross Range

Outside Mayor Don Cunningham's light-filled office overlooking the Lehigh River in Bethlehem, Pa., a visitor sees the past — a five-mile stretch of silent blast furnaces and defunct foundries in the old Bethlehem Steel works, formerly one of the nation's largest smokestack industries.

But Mayor Cunningham sees the future. "Look, in that corner is our new technology center. Up on the mountain is a high-tech enterprise incubator. And on the site of the former steel mill, we are developing a new entertainment complex, a hotel, an industrial history museum, an ice rink, a movie multiplex, and a swimming pool — on 160 acres."

The transformation of Bethlehem, the quintessential industrial economy steel town, into a high-tech center and tourist destination is one of the remarkable economic stories of the 1990s. The loss of 20,000 jobs in a decade drove the unemployment rate to a devastatingly high 15 percent. The children of steelworkers went looking for opportunity in the Sunbelt.

Today, with a lot of help from public-private partnerships, strong community college programs, new industrial parks, and the leadership of far-seeing people like Cunningham, young people have their choice of challenging jobs in high tech, light industry, or the booming tourism sector.

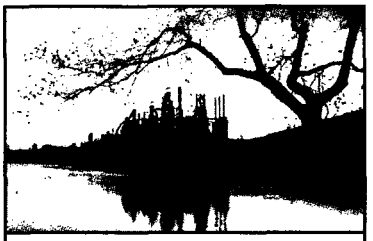
The turnaround didn't start easy. When the first knells of steel's death were heard in the early 1980s, community leaders naturally wondered which other industries they could attract. "But then we realized that smokestack chasing was no good," says Mark Lang, then a professor at Lehigh University. "It was a zero-sum game: To get it here, we'd have to take it away from New Jersey. So our basic notion was: Let's get technology."

Lang soon left the university to head Bethlehem's groundbreaking new enterprise incubator, Ben Franklin Technology Partners of Northeastern Pennsylvania, or Ben Franklin, as the locals call it. Supported with $6 million annually in state funds, matched by an additional $15 million to $20 million in personal investment and risk capital, Ben Franklin provides a kind of high-tech safe harbor for entrepreneurs with bright ideas that are bigger than their garages.

With professional advisers and a board whose members are drawn mostly from the private sector, Ben Franklin also provides the kind of business know-how that scientists often lack — how to write a business plan, where to approach investors, how to find markets.

Markets are the element that engineers usually know least about. "We thought, 'Hey, this is a beautiful technology, so people will buy it!'" says Scott Massie, whose company, IQE, is one of the most successful graduates of the Ben Franklin incubator (IQE makes cutting-edge semiconductor materials for cell phones). "But that's absolutely untrue. That's a scientist's view of the world. If your product is not useful and there's no market, people won't buy, no matter how elegant it is."

Linking scientific breakthroughs with real-world enterprise is Ben Franklin's task, along with giving entrepreneurs three to five years of "garage time" to develop their products (followed in some cases by post-incubator support in the new tech centers on the old steel works grounds). Today, the incubator looks back on an amazing track record: 273 companies started and more than 7,000 jobs created. The organization's failure rate — companies that didn't make it — is only 25 percent, far below the national average. Those that have shot through the roof — like IQE, which recently merged with a Welsh company and now supplies 35 percent of the world's merchant market for cell phone chips — are one-third of Ben Franklin's alumni.



SUNSET ON STEEL: Silent blast furnaces on the Lehigh River.

Another showcase example is STC Technologies Inc., which started with "three guys and a dog" at Ben Franklin in the late 1980s, says CEO Mike Gausling. "We left our real jobs to try to make a better sun screen," he explains. They succeeded, and Coppertone bought the worldwide license. STC then moved on to proprietary clinical diagnostic tests and medical devices. Now, with 96 employees, STC expects to hit $20 million in revenues in 2000. "By finding niches, we fly just under the radar of the big guys," laughs Gausling on the way to his BMW convertible for the trip to his new headquarters in the old Bethlehem Steel works. "None of us is from here, but we want to stay in the city because of all the help we got here. We hope to anchor the rebirth of this place."

The rebirth seems well on its way. "We're in early adolescence," chuckles Mayor Cunningham over smoked salmon carpaccio in one of the trendy new restaurants that have sprung up to serve Bethlehem's rapidly changing population — more high-tech, educated workers and tourists. With the shifting demographics comes a new mindset that sees the global economy as part of the local business environment. "Here we are in a steel town, the height of protectionist sentiment," says Cunningham. "But people here have learned the benefits of open trade. There is life after steel."

Peter Ross Range is the editor of BLUEPRINT.

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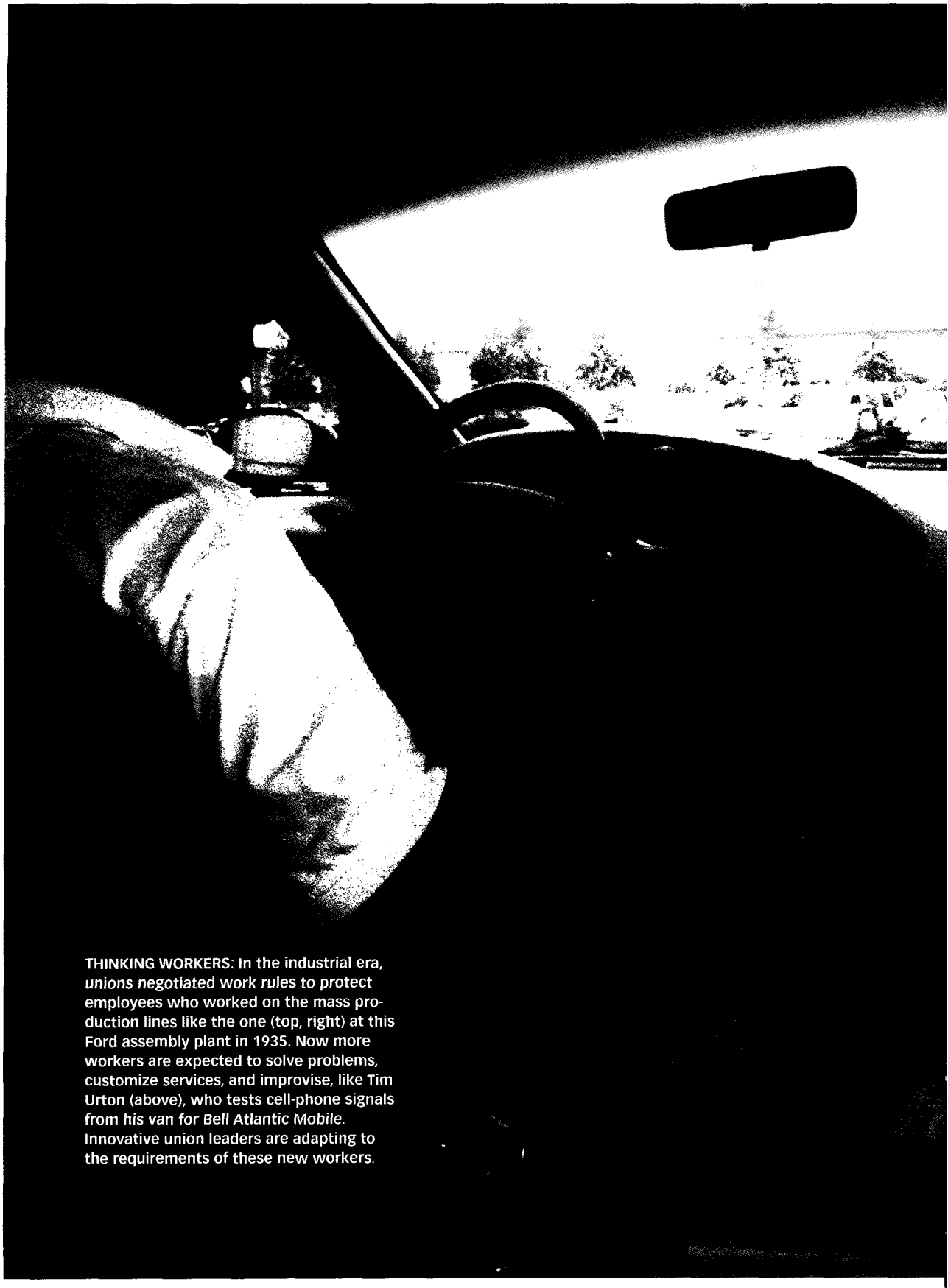

THINKING WORKERS: In the industrial era, unions negotiated work rules to protect employees who worked on the mass production lines like the one (top, right) at this Ford assembly plant in 1935. Now more workers are expected to solve problems, customize services, and improvise, like Tim Urton (above), who tests cell-phone signals from his van for Bell Atlantic Mobile. Innovative union leaders are adapting to the requirements of these new workers.

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Reinventing unions

Labor unions have an important role in the New Economy. In the industrial era, unions negotiated work rules, while managers did the thinking. New union leaders are equipping workers with relevant skills and more flexible organizations.

by Stephen A. Herzenberg, John A. Alic, and Howard Wial

To many Americans, the word "union" brings to mind a pot-bellied, cigar-smoking, aging, male labor leader. Intertwined in the public imagination with steel mills and assembly lines, unions are often thought of as anachronisms. They had a role to play in the old economy, but not in the new.

There's more than a grain of truth in the belief that unions are out of step with the times. The most powerful postwar unions blossomed in big factories and big firms. By bargaining with industry leaders and then spreading wage and benefit standards through pattern bargaining, they helped create the demand that kept America's economic engine running.

In the factories, unions negotiated work rules linked to narrow jobs. Managers were responsible for thinking, workers for doing — a split that contributed to adversarial labor-management relations.

Since 1970, international competition, deregulation, and new technology have undermined the stable oligopolies and regulated monopolies within which unions prospered. The growth of the services, in which unions never represented many workers, hastened their decline. Only 9.4 percent of workers were union members in 1999.

As long ago as 1928, a U.S. Chamber of Commerce official famously remarked:

"American trade unionism is slowly being limited in influence by changes which destroy the basis on which it is created. ... The changes — occupational and technological — which check the advance of trade unionism appear likely to continue. ... I see no reason to believe that American trade unionism ... will become, in the next decade, a more potent social force."

Will similar predictions today turn out to be more accurate? Should we worry about the possibility of life without unions?

What Makes the New Economy "New?"

To answer those questions, we need to consider what makes the New Economy "new." One striking fact is that very few jobs today (we estimate 5 percent) are broken down and scripted in classic production-line fashion. Most people now perform tasks that vary unpredictably, because they're working in a hospital or a restaurant or an office.

In the New Economy, productivity gains come, as in the past, from technology. Voice recognition means telephone companies need fewer operators; electronic data transfer means organizations need fewer clerks and low-level managers. But productivity improvement today depends more than ever on what we call "economies of depth" — the ability of employees to solve problems, customize services, and improvise — and on "economies of coordination" — the ability to work cooperatively so that the conference runs smoothly, the insurance policy gets issued in days instead of weeks, and hospital patients get the care they need when they need it.

Stephen A. Herzenberg, John A. Alic, and Howard Wial are the co-authors of New Rules for a New Economy: Employment and Opportunity in Postindustrial America, a Twentieth Century Fund book *(now in paperback from Cornell University Press). Herzenberg and Wial are affiliated with the Keystone Research Center, a Pennsylvania think tank. Alic is a consultant in Washington, D.C.*

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"Policies that raise the quality and status of what are now low-paying service jobs must be part of any strategy for expanding the middle class."

The good news is that economies of depth and coordination remain largely untapped. If we can learn how to exploit them, we can enjoy a new era of extended prosperity that offers more satisfying jobs and a better quality of life.

The bad news is that the New Economy is largely failing to generate the worker skills it needs to function at peak efficiency. One reason is that firms no longer expect to employ workers indefinitely (in the extreme, until retirement). This exacerbates an old problem: Firms have no incentive to train workers who may soon be "downsized" or quit.

In theory, workers themselves could pay the bills for acquiring the skills employers desire. But many young and low-wage workers cannot do so. Besides, if they have no assurance of a better job when they finish their training, why should they risk a substantial investment?

And even when workers, firms, or the government do pay for classroom training at educational institutions, this rarely transmits the often tacit, context-specific know-how essential to peak performance in customer-contact, human service, information, and technical work.

If unions are able to adapt, they could help solve the "free rider" problem that makes firms reluctant to invest in training. They can do so by drawing on the rich legacy of craft unions. Like the guilds from which unions first arose, craft unions have always defined themselves as defenders of quality. In the construction industry, unions negotiate arrangements under which contractors share the costs of jointly managed apprenticeships. These programs integrate classroom training with on-the-job mentoring to consolidate workers' practical knowledge. They develop the skills essential to wire a home properly or weld a cross-county pipe.

Construction also illustrates what happens when unions weaken and decline. Starting around 1970, non-union construction firms expanded by undercutting union contractors. They pushed down wages, driving experienced workers from the industry, but hardly ever contributed to apprentice training programs. Today, the industry is starved for skilled workers. What homeowners and other construction customers have gained from cheaper labor, they lost in lower productivity and shoddy quality.

As in construction, unions rooted in New Economy occupations and industries, rather than in individual firms, could promote training and peer learning. They could make occupations the new locus of job security. Unions that cut across employers could help provide portable pensions and health care. Relieved of individual (though not collective) responsibility for employment and economic security, companies would have the flexibility to adjust their workforces to meet demand. With less to fear from downsizing, and with less inequality within and across employers to feed resentment, workers would be more willing to cooperate to improve performance.

America will never become a nation composed only of New Economy software engineers and other "knowledge workers." There will always be demand for what are now low-paying, labor-intensive services: in nursing homes, hotels, trucking lines, theme parks, and child care centers. There is no escaping it: Policies that raise the quality and status of what are now low-paying service jobs must be part of any strategy for expanding the middle class (just as industrial unions lifted auto workers into the middle class). We cannot create enough good jobs without more collective bargaining at the bottom of the labor market and without a major increase in the minimum wage.

Is Labor Up To the Challenge?

Many labor leaders who began their careers as far back as the 1950s have been bewildered by the decline of the old economy. But now a generational transition is bringing to power men and women who have only known a world in which union power has been declining. Their starting point is that the balance of power in the United States is out of whack — corporations and the rich have too much power; ordinary working people and unions have too little.

To New Democrats, the often militant rhetoric of new union leaders and their "New

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UNIONS LEAD: The union-spurred Wisconsin Regional Training Partnership facilitates new labor-management collaboration to improve competitiveness and raise wages, like this mentoring meeting between machinists and management at Tecumseh Products.

Leftover" staff may sound more backward-looking than that of their predecessors — as if rather than adapting to the New Economy all the situation called for is a heavier dose of militance. Still, despite public gestures and habits that New Democrats view as pointing to the past, the House of Labor is beginning to innovate. Across the country, unions are laying the foundation for a labor movement that meshes with the New Economy:

- Manufacturing unions spurred the creation of the Wisconsin Regional Training Partnership, which now includes 56 firms and 60,000 workers. The partnership addresses skill shortages and work reorganization that help local firms compete, thereby creating new high-wage jobs in the Milwaukee area.
- In Las Vegas, the hotel workers' union and major hotels joined to form the Culinary Training Institute. The Institute has trained 14,000 new employees for the area's worker-hungry hotel and restaurant industry.
- In Philadelphia, the United Child Care Union has launched a multi-faceted organizing campaign designed to improve the quality of care as well as jobs, in part by creating an area-wide occupational association for child care workers.
- In Pennsylvania, two major health care unions have joined with industry and professional associations and advocates for the elderly to promote "culture change" in elder care — loving care instead of the life-draining care delivered by low-wage, higher turnover Medicaid mills. The unions recognize that simply locking horns with providers cannot give workers dignity and job satisfaction.

In San Jose, the local council of labor unions — led by the young, charismatic Amy Dean — is seeking to adapt to the Silicon Valley economy, in which as much as 40 percent of employment is in temporary, part-time, contract, or self-employment. The council set up its own nonprofit organization and temporary agency, which has supported the creation of a modularized associate's degree that office workers can rely on to seek career advancement. The final pieces of the puzzle to date: an advocacy effort and an association of temporary workers. These seek to raise employment standards in the short run, and they point toward the possibility of a craft-like union of "entry-level information workers" in the future.

Increasingly, the AFL-CIO under John Sweeney is supporting local innovation. For example, two programs — "Union Cities" and "A New Alliance" between local AFL-CIO councils and state federations of labor — are bringing strategic planning to subnational

"Across the country, unions are laying the foundation for a new labor movement that meshes with the New Economy."

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labor bodies, an essential first step to unions' reorienting themselves to add value as well as values to state and regional economies.

And the AFL-CIO has created the Working for America Institute that is focusing on how to promote "high road" economic strategies based on economies of depth and coordination and on expanding opportunity for workers. The institute is also delivering critically needed technical support to new labor-management training partnerships popping up across the country.

"The new social contract — the New Deal for the New Economy — must be: Workers and unions will deliver responsible, high-quality service; in exchange, society will support a union's right to exist and all workers' right to economic security."

Broadening the Effort

How can we help unions adapt to the New Economy? Giving union innovators more visibility and support would be a start. This would send a strong message to the labor movement that it could broaden its public base by engaging with the New Economy rather than condemning it. For example, the Commerce Department's coveted Malcolm Baldrige awards go only to individual firms on the old economy presumption that firms bear most of the responsibility for productivity improvement. Why not create a new category of awards to encourage occupational and professional associations, multi-employer organizations, and labor-management partnerships? Wouldn't it be good to recognize teachers' unions such as those in Cincinnati and Toledo, Ohio, for embracing peer review and peer-mentoring programs that measurably improve teaching?

To engage unions more deeply with the New Economy, we need to increase state and local, as well as federal, seed funding for labor-management partnerships linked with key industries. The Department of Labor has just awarded nine grants of about $750,000 each to union-supported regional training consortia — for technology occupations in Washington state, farmworkers in California, nursing homes in Florida, and information jobs in New York, among others. In occupations such as computer programming and systems support, new unions that operate mentoring and apprenticeship programs would do more to end skill shortages than college programs leading to degrees in computer science or bringing in more foreign "guest workers."

A third step would be to encourage employer neutrality when workers seek to form unions. Without anti-union campaigns, labor-management relationships would not start off as poisonous and would be more likely to lead to strategies that serve consumers and the public as well as workers. In Philadelphia, in a sadly typical case, when the United Child Care Union sought representation for 400 Head Start workers, the nonprofit employer hired an anti-union consulting firm. When the union won a certification election anyway, by a 2-to-1 margin, the employer announced it would give up its Head Start contracts. In the transition to new contractors, many workers lost their jobs, others took large pay cuts, and no one gained the union representation for which they had voted. Needless to say, the children bore part of the burden. Although federal labor law limits what federal agencies, states, and localities can do to protect workers' right to organize, scope does exist for promoting true neutrality, particularly when organizations receive public funds. In addition, federal contractors that violate workers' rights to organize in union certification campaigns, for example, could be denied public funds for several years thereafter.

In the long run, it will take a New Economy version of the Wagner Act to generalize the shift from old to new unionism. The promotion of worker voice and bargaining at the multifirm and occupational level will be central to such a transition. The essence of the new social contract — the New Deal for the New Economy — must be: Workers and unions will deliver responsible, high-quality service; in exchange, society will support a union's right to exist and all workers' right to economic security.

To those who find our proposals unpalatable, we offer a simple challenge: Tell a convincing story of how America will restore widely shared prosperity without a revival of the labor movement. We can't think of a way, and we've been pondering this question — as opposed to willfully ducking it — for years. ■

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What Works/Boosting clothing workers

Garment Industry Development Corp. / by Bruce Herman & Linda Dworak

America's unions are taking the lead in launching a host of what are called High Road Partnerships that build alliances with employers and their communities. Examples include the San Francisco Hotels Partnership, the Las Vegas Culinary Workers Training Center, and the Michigan-based Labor Management Council for Economic Renewal. But one of the most successful and oldest is the New York-based Garment Industry Development Corporation (GIDC).

GIDC was the outgrowth of concerns over the decline of the New York apparel-making business, which had historically provided a point of entry into the formal labor market for new immigrant communities. With 4,000 manufacturers and contractors and 80,000 workers, New York remains a world fashion capital, generating $14 billion annually for the city. Yet for years, the city's apparel industry and its employees have faced significant challenges due to competition from low-wage production overseas. In 1984, UNITE (the Union of Needletrades, Industrial, and Textile Employees) took the lead in convening government, industry, and labor leaders to address the problems of factory closures, job losses, and the growing presence of sweatshops. As a result, GIDC was created to strengthen New York's clothes makers with the slogan "keep jobs in fashion."

Now in its sixteenth year of operation, GIDC's sectoral strategy is designed to contribute value-added programs and services that maximize the competitiveness of New York City apparel manufacturers and simultaneously retain, grow, and improve jobs. This strategy combines education and training with technology diffusion and market development, providing comprehensive support to the city's fashion industry.

GIDC's earliest efforts focused on providing real estate assistance to lower Manhattan or Chinatown-based sportswear industries. Since that time, GIDC has established itself as a multiservice organization providing an array of programs and services that help New York's apparel industry compete in the global economy.

GIDC provides training and education programs to increase the apparel industry's competitiveness and to improve the earnings potential of its workers. Training is provided to both workers and managers in classrooms as well as on the job. On-site, employer-specific extension services assist New York apparel firms to adopt modern technologies and production methods and to develop high performance work organizations to compete more effectively in the global marketplace. Additionally, GIDC's market development programs expand the customer base for domestic apparel manufacturers and contractors by facilitating new business relationships, promoting exports, and enhancing the image of New York's apparel industry in the United States and abroad.

NEW TRAINING: New York is still a magnet for immigrants, many of whom begin working as garment workers. GIDC has trained more than 1,000 workers in modern techniques, improving skills and earnings.

GIDC's major accomplishments include:

- training approximately 1,000 garment workers and management personnel annually;
- creating the Garment Industry Training Center with state-of-the-art industrial sewing equipment located at the High School of Fashion Industries;
- establishing a Training and Technology Extension Service;
- creating JobNet, a job identification and referral service;
- acting as a conduit to existing government assistance programs to upgrade technology and improve productivity;
- generating over $35 million in new international business through the Fashion Exports/New York and New York Fashion International programs;
- completing an extensive study of the child care needs of apparel industry workers;
- launching domestic market development initiatives — Quick Response, the Sourcing Center, and the Made-in-New-York program;
- opening the Fashion Industry Modernization Center, a technology and training center located in the heart of Chinatown.

In 1998, the AFL-CIO created the Working for America Institute to document and foster the High Road Partnerships. For more information, contact the Institute at 815 16th St. NW, Washington, D.C., 20006 (tel. 202-638-3912, fax 202-783-6536). Web site: www.workingforamerica.org.

Bruce Herman is executive director of the AFL-CIO Working for America Institute. Linda Dworak is executive director of GIDC.

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"You need all of the players to be at the table."
—Amy Dean

Back to the Future

Silicon Valley labor leader Amy Dean argues that mobile, Information Age workers need an updated version of the craft guild.

Interview by Kerry Tremain

Silicon Valley, one of the cut-throat capitals of the economic universe, might seem an unlikely environment for the re-emergence of a powerful union movement. Yet that is precisely what has happened under the leadership of an innovative AFL-CIO organizer named Amy Dean. Dean, 36, heads the South Bay Central Labor Council which represents more than 110,000 employees in and around San Jose, Calif.

Dean believes the labor movement can reinvent itself for the New Economy by remembering its roots in craft guilds and hiring halls, when workers were often freelance agents rather than attached to one firm for life. She wants labor to broker training programs and portable benefits for a mobile, educated workforce; she also wants unions, like professional associations, to be easier to join.

In Silicon Valley, Dean has initiated training programs with a local junior college and started a policy research arm of the council, whose reports on wage trends have garnered wide attention. In addition, she has created a union-sponsored temp agency that offers training, higher wages, and portable benefits to the workers it represents. Dean, who serves as a member of the PPI's Technology & New Economy Project, spoke to BLUEPRINT recently about her vision for new labor.

BLUEPRINT: What are three key ways in which you would urge union leaders to redefine labor's role in the New Economy?

Dean: The first is to organize. Develop a strategic plan that analyzes the direction of your industry and employment sector, then to shift resources into organizing. Our AFL-CIO president John Sweeney has called for unions to commit at least 30 percent of their resources to organizing. Those resources must be linked to a strategic plan with the goal of building union membership density in the sector.

In health care, for example, the Service Employees International Union (SEIU) recognized that the emphasis is to move support services into people's homes. The HMOs are pressuring hospitals to get people in and out quickly. SEIU anticipated that trend and committed resources to organizing the new sector, home health care workers.

The second is to be looking at different kinds of benefit plans. People no longer stay in the same craft or occupation over a lifetime. We need to have portability as an option for our health plans and our pension plans so that people can remain connected to the industry or occupation even as they move from employer to employer.

The third thing I would suggest is that unions need to be an independent mechanism for employee voice. People want to have a say in the way their work is performed and a voice in the strategic direction of the enterprise or the occupation. National polling done by the national AFL-CIO confirms this. We have to think more broadly about the collective interests of people beyond just simply wages and hours and working conditions.

To add a fourth point, labor can coordinate all of the workforce development and training resources within a regional economy and within a particular occupation or industry sector. For industry, there is increasingly a disincentive to invest in a company's workforce given that median job tenure is so short. In California it's three years. Even for companies like Cisco, their biggest problem in growing their market is having enough trained people. Most companies only think about training for the skill set that is immediately necessary. We need an institution that thinks both in terms of the immediate needs of the employer as well as the long-term needs of the employee.

Are there unions that have started to play that role?

Here in our own valley the Plumber's Union partners with their employer association and plays an active, strategic role in the training direction. We have another craft union that is just a mile down from the Plumber's Union, and they simply came to the table and never tried to think strategically about the skill sets that were necessary for their people over time. They allowed industry to continue to specialize their training. And now, twenty years later, they don't have any of the kinds of workers industry needs, whereas the plumbers now have almost 100 percent full employment.

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How should workforce training and development be reformed?

One, our major educational system is designed for front-end learning, not lifelong learning. And our workforce development organizations — the private and public sector organizations charged with training and retooling and placing people — have functioned as little more than social service agencies. They are completely disconnected from the regional economy and the employer community. They're not able to anticipate the trends within regional labor markets or sectors.

You've called for regional training partnerships. How do these work?

Regional workforce development consortia convene all the appropriate players by industry sector or occupation. That could be the union, the community college, employers, a trade, or tech or vocational program, community development organizations, etc.

You need all the players to be at the table to define skill standards that are widely accepted across the industry. Community colleges and workforce development organizations then train according to those standards. Labor can convene and coordinate the different institutions involved in workforce development. They can broker the supply and demand of people within that sector as they move from employer to employer, and they can develop "move-up" programs for employees to increase their skill and income levels.

Here in the San Jose area, for instance, our council is building regional workforce consortia around administrative and technical workers. The group defines skill standards — what it means to be an Administrative Worker II, for instance. Then we train for it. The employer knows exactly what off-the-shelf software that person can use. The employee just fires up the computer and they're off. And the standards are continuously upgraded.

So the union does not necessarily run the training programs?

In instances where we own the training infrastructure, we can provide it directly. In other instances, we may broker it. An example here in San Francisco is the Hotel, Restaurant Employees Local 2 working with all the major hotels in the city of San Francisco. They've got the same program in Las Vegas, which is also fabulously successful. They've defined the skill sets that are associated with a hostess, with a room cleaner, with a cook, whatever the different classifications are within a hotel, right, and there is an industry-wide understanding of the associated skill standards. If I come out as a room cleaner, it means something. You know what I can do. The union also helps people move up through their training program. In both San Francisco and Las Vegas, the union collaborates with a local community college, but in Las Vegas, they are actually building the center.

What should the new president urge the federal government to do to assist this transition for unions?

The days of working and having a fixed and permanent relationship between yourself and your employer are long gone. We need to extend collective bargaining rights to the growing legions of contingent workers and to temporary workers and part-time workers. We need to redesign under the Wagner Act what constitutes a community of interests beyond those who are housed under one roof for one employer.

The second thing is portability. We need to reform our benefit plans. We need to reform health care and HMOs to build insurance plans for people who move from job to job. Affordability for health care right now is only based on group rates. What's the group for the 35,000 temporary workers in Silicon Valley?

A third important reform is to extend our social insurance programs to include these new-ways-to-work workers. When we crafted the New Deal and built a social infrastructure to offer people protection from the inevitable ebbs and flows of the business cycle, we designed them for a workforce permanently connected to one employer. Now as a consequence, if you're self-employed, or an independent contractor, or a temporary worker, these important social insurance programs don't extend to you.

Government should also set accountability standards for the regional training consortia and fund training programs if they meet performance-based benchmarks. The benchmarks would include having all the appropriate actors on board, the technical capacity to understand labor markets, the ability to "move up" and place workers, etc.

How do you convince Silicon Valley employers that unions can help them stay competitive and innovative?

No matter how rationalized of a role we create for the next generation of employee organizations, we won't necessarily be welcomed with open arms by the employer community. What's important is that we create a strategic role for unions in the new economy. Union organizations must be as decentralized as the new economy itself, combining lifelong learning and building employee voice. By meeting industry's need for well-trained employees and employees economic and social needs, America's next generation of unions will solve a problem that neither government nor industry can solve on its own.

Kerry Tremain is a writer and an editor of BLUEPRINT *in Berkeley, Calif.*

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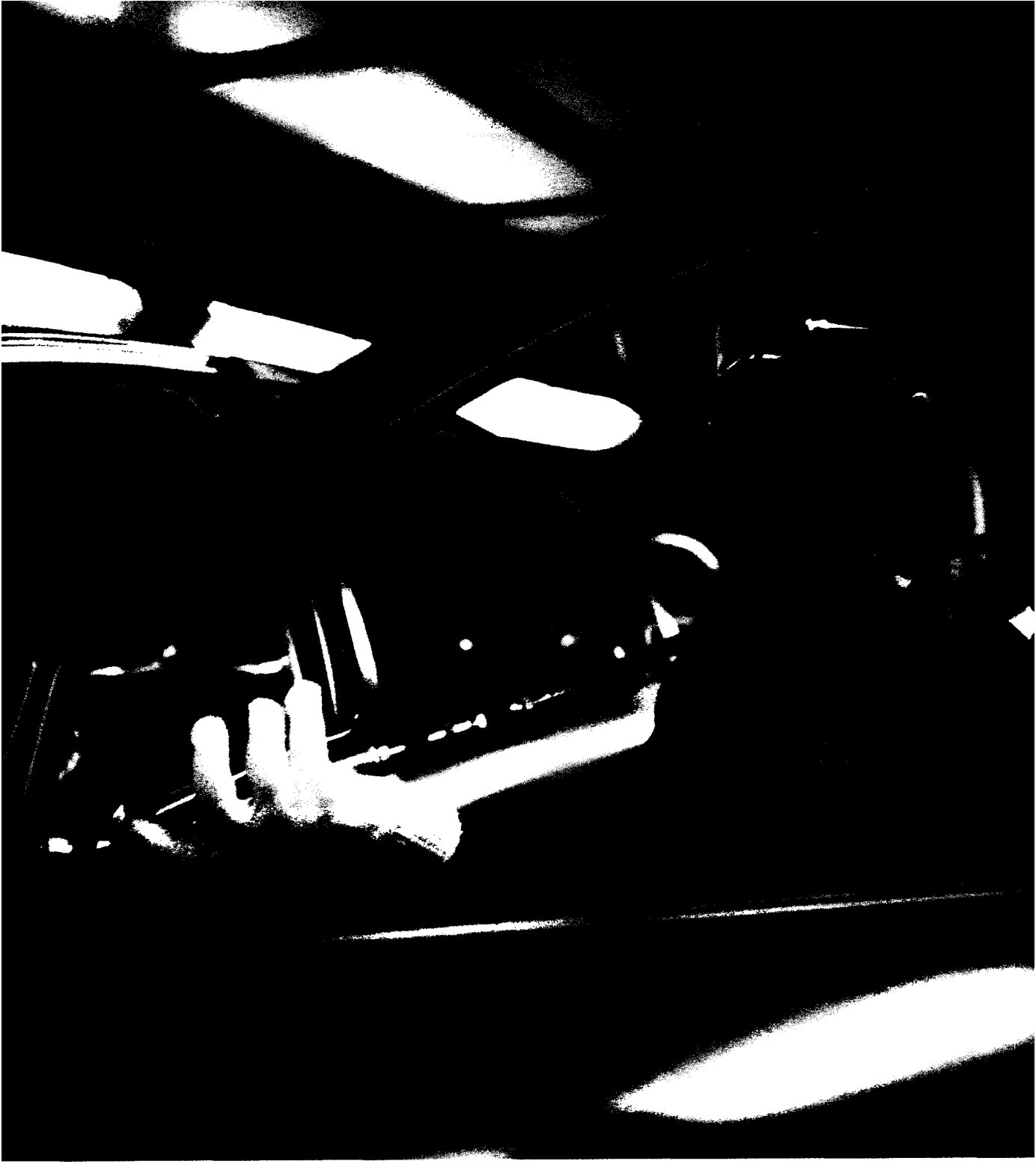

Under pressure from global competition, American firms have changed the way they operate — producing huge gains in productivity, quality, exports, and customer satisfaction.

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WORKING SMARTER: Auto workers, like this one in California, have shown that high-performance work systems can dramatically reduce the number of labor hours it takes to build a car.

Revolutionizing work

by Paul Osterman

The American way of working is undergoing a revolution, and the results are already visible in profits and productivity. One conspicuous example is the automobile industry. Not too long ago, buying American and not Japanese meant a sacrifice in quality. No more. The great leap in U.S. car quality occurred in large measure because of dramatic changes in how work is done in automobile assembly plants.

Other industries and companies have shown similar improvement. Southwest Airlines, consistently ranked at the top of the industry in profits and customer satisfaction, is marked by a flexible and effective approach to job design and work organization. A Miller beer brewery in Trenton, Ohio, has been able to produce 50 percent more beer per worker than the company's next-most-productive facility in part because a lean, 13-member crew has been trained to work in teams to handle the overnight shift with no oversight. Even a life insurance company introduced self-directed work teams at some of its offices and reported that employees "assumed responsibility for personnel as well as work-related issues and undertook cross-training in a pay-for-learning compensation system." And, as is widely known, many of the new "dot.com" companies organize work to maximize flexibility for their Gen X employees.

These examples cut across a wide range of industries. What they have in common is a transformation in how work is done and in how managers and employees think about their respective roles. There is good reason to think that this transformation should take its place alongside the information technology revolution as an explanation for America's surging productivity.

Throughout most of the postwar period, American firms structured work along the lines first suggested by industrial engineer Frederick Taylor in the early 20th century. The workplace was organized around tight divisions of labor and specialized jobs.

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Decisionmaking was in the hands of supervisors who decided how the jobs were to be performed, how work was scheduled, and how workers were judged. This system worked well when products were standardized, when the environment facing the firm was stable, when workers were more willing to accept such regimentation, and when information was paper-based and workplace technologies not sophisticated.

However, that system is failing today, in a world driven by "mass customization," rapid change, and an information technology revolution putting massive amounts of computing power at the fingertips of front-line workers. Innovation is enhanced when people close to the product can contribute their ideas, and quality is improved when everyone takes it as their responsibility. Moreover, relentless efforts to cut costs lead to elimination of bureaucratic layers and push greater responsibility to lower levels. This new economic environment has led to the rise of new work systems.

"There are good reasons to expect that firms that adopt high-performance systems will be more productive than those which do not."

At the core of the new systems are changes in how employees do their jobs. Perhaps the most typical innovation is the introduction of work teams. In many instances teams are led by a management employee, but that person's role has changed to one of a "coach" or "facilitator." In other instances teams are self-directed. In both instances the idea is that employees take responsibility for a group of tasks, that there is a sense of responsibility for the team's product or service, that the workers are broadly skilled, and that they rotate among jobs.

In many "transformed" firms employees are involved in aspects other than direct work activities. The most common is problem-solving groups or quality circles, often consisting of a cross-section of the workforce and hence to some extent obviating traditional managerial/non-managerial distinctions. These groups address problems such as production techniques, quality issues, and health and safety. In the most extreme form they can take up topics that in the past have been seen as clearly "managerial," e.g., outsourcing and supplier policy.

Just how rapidly have American firms moved to the high performance model? I surveyed employers in 1992 and again in 1997 and asked about four practices: self-managed teams, problem-solving groups, job rotation, and total quality management. The 1992 results showed higher usage rates than most commentators had expected, and the 1997 results indicated that these systems had continued to spread. In 1992, 24.6 percent of establishments involved a substantial share of their workforce in two or more practices, one of which was teams; by 1997 it had grown to 38.3 percent. The probability of adopting these systems increased for firms that had relatively high-skilled technologies, competed in international markets, placed a high value on product quality, were large, and were part of multi-location organizations.

There are good reasons to expect that firms that adopt these high performance systems will be more productive than those which do not. First, high performance work systems do a better job of tapping into the ideas and creativity of the workforce. Second, the participation they generate might increase the commitment of the workforce to the organization. Third, they may organize work in ways that are inherently smarter and more efficient. Fourth, adoption might save costs as firms are able to eliminate some supervisors and other redundant employees (for example, quality control people). Finally, people might work harder because of increased peer pressure from being a member of a team.

Research in industries such as automobiles, steel, telecommunications, and apparel (among others) suggests that these expectations are valid and that new work systems outperform traditional models. A sense of the dramatic impacts can be gleaned from what happened when Toyota took over the management of the old General Motors Freemont, Calif. plant, which was renamed NUMMI. Little new technology was introduced and the old labor force was rehired. What changed was the introduction of the Toyota version of high performance work systems. Labor hours per vehicle fell from 48.5 hours to 19.6 hours, and quality dramatically improved. Similarly, a large regional Bell company with self-managed customer service teams sold 20 percent more than did employees

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FLEXIBLE JOB DESIGN: Profits and customer satisfaction have come Southwest Airlines' way as a result of innovative approaches to work organization.

organized in a traditional fashion.

If these practices are growing, why should there be a role for public policy in promoting them? The problem is that high performance work organizations may not diffuse as widely as they should because of information failures, restrictive regulations and laws, and lack of the kind of workers needed to make high performance work.

First, small- and medium-size firms appear to be lagging behind. These companies, who are often suppliers to larger enterprises, are under tremendous pressure to improve quality and reduce prices. At the same time, they frequently operate on very tight margins and have little slack for investing in new processes. In many cases, there is also a generational problem as older managers and founders have difficulty adapting to changing circumstances. All of this suggests the need for continued, and even expanded, support for services such as the Manufacturing Extension Partnership operated by the National Institute of Standards and Technology (NIST) in the U.S. Department of Commerce (and equivalent state efforts). Because these efforts work best when they combine technical assistance with help on human resource and training issues, NIST should focus more on supporting high performance work organizations.

NIST should also broaden the categories of industries that it works with to at least include other goods-related industries such as wholesale trade and construction as well as a subset of service sector firms. Moreover, it appears that industry-led, sectorally based centers that work with firms to help them export, adopt new technologies, and train their workforce can also stimulate high performance work. NIST funding should be increased and targeted to co-fund such centers with industry.

Another concern is whether the gains achieved thus far are sustainable. A central requirement is that members of the workforce continue to contribute their best ideas and efforts to quality and productivity. In the long run, people must believe that firms are playing fair with them. However, my research suggests that many of the gains from the new high performance systems are frequently not being shared, in terms of wages and employment security, with the workforce. When companies are unionized the chances increase that the gains will be shared, but the rate of unionization is low. At the root of these problems is the fact that the balance of power between employers and employees has tilted too far in the direction of firms. This problem needs to be addressed from the national bully pulpit and through labor law reform.

Labor law itself poses another threat to these work systems. Under current interpretations, many of the practices are illegal because they involve employees collectively in managerial decisions and hence may appear to operate like company-dominated unions. To enable more high performance work prac-

"The problem is that high-performance work organizations may not diffuse as widely as they should because of information failures, restrictive regulations, and laws."

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tices through labor law revision, as some employers desire, we need to remove legal obstacles to effective work organization. However, unions resist both because of their all-too-vivid memory of company-dominated unions and because they reasonably see the proposed legislation as not only aimed at productivity but also as a veiled effort to undermine employee organizations. This stalemate cannot be resolved until the overall climate of employee representation shifts in the direction of greater openness in the business community to employee voice in the workplace.

"The federal government should establish a tax credit for company investments in remedial education, literacy training, and English as a second language."

Finally, high performance work organizations require higher skills. If workers don't have the skills to work in the more demanding high performance work systems, employers will continue to organize production in the old ways that simplify work. Neither the basic skills nor the vocational skills produced in America's high schools are near world-class standards. This gap, and its adverse consequences for continued innovation in the workplace, helps explain the energy the business community has put into school reform. Concern around these issues should not, however, stop at the high schools. America lacks a well-developed training system that can provide workers with the skills they need to advance and take new jobs in skill-shortage areas. Some of the elements of such a system, like community colleges, are already in place and are promising building blocks. However, the obstacles facing people are substantial. For example, class scheduling can be a problem for people who have to work; remediation programs are often not widely available or well designed; clear ladders are not established between remedial work and regular degree or certificate programs; and counseling and financial support for hard-pressed students are insufficient to prevent a high dropout rate.

In addition, in many cases, community colleges are not responsive to the needs of employers. There are scattered models of successful programs — for example, Project Quest in San Antonio — but much work remains to build a coherent, articulated system. The Workforce Investment Act offers governors the opportunity to think through these issues and to act creatively, but the key word here is opportunity. Unless they embrace significant reform, the old workforce system with all its faults is likely to simply be recreated, albeit under a new name.

The federal government should also encourage companies to make investments in skill development. It should establish a tax credit for company investments in remedial education, literacy training, and English as a second language. Many companies seeking to upgrade the skills of their workforce are having to first make sizeable investments to simply make up for the skill deficits produced by the K-12 education system. However, firms are reluctant to make this kind of training investment in general skills that do not seem directly job-related, and it is reasonable to provide a level of support to increase their incentives.

The federal government should also provide matching grants to states for incumbent worker training programs. A handful of states have established incumbent worker training programs to help companies upgrade the skills of their workforce. To encourage other states to follow suit, the federal government should establish a matching grant program. Another worthwhile initiative would be federal investment in industry-led, regional skills alliances (RSAs). Independent, staffed collaborations among firms in an industry, RSAs are formed to identify common areas of skills shortages and develop and implement effective training solutions. It would be valuable to initiate and support these institutions in part by federal funds.

In the past decade-and-a-half, many American firms have radically transformed how they do business. Prominent in these changes is the introduction of high performance work systems. These have led to higher quality and improved productivity. Many employees prefer these systems for the greater opportunity they offer to fully draw upon their talents and knowledge. The challenge is to ensure both that these ideas continue to diffuse and that they are sustainable in the face of a difficult environment. Much of the heavy lifting will be the responsibility of firms and their workers, but there are also important policy initiatives that can help keep us on this high road. ■

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What Works/Sidney Harman, innovator

Genius on the factory floor / by Kerry Tremain

Sidney Harman, the high-end audio manufacturer and chairman of Harman International, remembers the moment that reshaped his management views — "my epiphany," he calls it.

"It was in one of our plants in Bolivar, Tenn., in 1960," he remembers. "Working conditions were Dickensian" for the largely African-American workforce. One night, the buzzer signaling the workers' coffee break malfunctioned and it was several minutes before workers were notified of their break.

"In their wisdom," said Harman, "the managers decided that from then on they could delay the buzzer and coffee break by at least 10 minutes a night." And they would have, except for a brave soul named Nobe Cross. Harman recounts that Cross, when the signal failed to sound at 10:00, pointed to his wristwatch and announced to the other workers, "I don't work for the buzzer, the buzzer works for me."

Cross' quiet protest led to management changes in Bolivar. Harman involved employees in company decisions. Workers started an uncensored newspaper that openly criticized management and production practices. Many of the plant's workers became local leaders in civic programs. The change not only spiked the company's productivity, but also produced a workforce with fewer social problems, like alcoholism.

"I don't work for the buzzer, the buzzer works for me," Harman repeats today. "That is a simple but profound shift in thinking. It puts human beings at the center. It is the opposite of the top-down principles that dominated management."

Putting humans at the center may seem costly to traditional management. But Harman believes the opposite: that competitive advantage for high-performance organizations lies in increasing the welfare and security of their workforces. He has used that belief to develop what he calls his "new social compact" with employees. It consists of several innovative programs, including:

Joint employee/management committees. These regularly review problems and identify opportunities from every perspective. For instance, the "How We Doin'?" committee at the Martinsville, Ind., plant is composed of management and union members from every classification and shift.

Senior executive service. Senior management is required to work in production areas in company plants to learn about processes firsthand and communicate directly with production employees. "The executives learn that in many ways, people working on production lines often know more about how to do it right than the manufacturing engineers who designed the process," Harman wrote in one report.

Cost Savings Sharing. Workers who decrease production line costs share in the resulting profit. The focus is on measures that employees can affect directly, thereby avoiding some of the problems associated with traditional profit sharing. "At Martinsville, the two key performance standards are scrap reduction and productivity improvement. After the program to share savings was implemented, productivity doubled in five years.

Harman International is now the world's premier audio firm with 8,500 employees, selling products under the JBL, Harman/Kardon, and Infinity brands. Harman says that his companies' dramatic growth is attributable to his recognition that "the genius of a company is on the factory floor." Harman calls the changes in his company a shift from "analog to digital management." If the old style was vertical, bureaucratic, and sequential, the new one is horizontal, networked, and dynamic. Harman likens it to a great jazz group. "It embodies improvisation and invention, careful listening to other players, the magic of interaction [and] discipline."

Harman's philosophy has frequently put him at odds with established management thinking. In the mid-1990s, when Wall Street was rewarding corporate downsizers, he argued that companies would do better to make a new social compact with their workers. In the traditional model, he pointed out, when workers increased their productivity they were often laid off, forcing them, Harman said, "to become their own executioners."

Freed of that concern, Harman said, workers "can unleash levels of productivity of which we have hardly dreamed." In those times of massive layoffs, he turned productivity gains into spinoff businesses that employed workers who would otherwise have been displaced.

Harman is not immune to competition and mistakes, of course. The company has occasionally laid off workers to stay competitive. In 1998, it shut down an unproductive plant in El Paso. But according to Harman's math, the race to the bottom on worker wages and benefits makes less and less sense. "We operate in some of the highest wage economies in the world. But the labor portion of our costs is less than 5 percent and shrinking."

Throughout the swings of the roaring 1990s, Harman has played on a global stage and won — most of the time. But he hasn't forgotten the lesson he learned from the plant floor in Bolivar. "Certainly the business environment has changed dramatically over the years," he says. "We operate in a more global and digitally driven economy. But our core management concept is the same as it was in Bolivar after Nobe Cross."

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Closing the income gap

All U.S. families are enjoying double-digit income growth, with the bottom 20 percent growing as fast as the top 20 percent.

by DeWayne Davis & Jeff Lemieux

Is inequality the fly in the New Economy ointment? Despite today's rip-roaring growth, say the pessimists, disparities of income and wealth in America are growing worse. Since the mid-1990s, however, the trend toward greater inequality clearly has ceased, as the U.S. economy's rising tide has once again begun to lift all boats.

It is true that over the last generation, America became more unequal than ever. In 1976, the average income of the top fifth of the U.S. population was seven times that of the lowest fifth; by the early 1990s that ratio had swelled to 11-to-1.

From 1969 to 1993, families in the bottom fifth saw their real incomes fall by almost 20 percent, while the top fifth enjoyed whopping gains of over 30 percent. In this period of slow growth and "stagflation," middle-class families had no income gains at all.

Such figures recently led two left-leaning Washington think tanks, the Economic Policy Institute and the Center on Budget and Policy Priorities, to draw this grim conclusion: "Despite the current economic expansion...the incomes of the country's wealthiest have increased substantially over the past two decades, but middle- and lower-income families have seen their incomes stagnate or fall."

This view, however, fails to distinguish between the very different economic performances and social policies of the 1980s and the 1990s. Since 1995, productivity growth has averaged 2.9 percent a year, compared to 1.6 percent in the 1980s. The U.S. unemployment rate has fallen to 4 percent, drawing into the workforce millions of new workers previously regarded as unemployable. Black and Hispanic unemployment rates are at record lows. The poverty rate has also declined from 15 percent to 12.7 percent, the sharpest five-year drop on record.

Once again all Americans are sharing in the New Economy's growth. From 1993 to 1998, U.S. families have enjoyed double-digit gains in real income — with the bottom fifth's growing at least as fast as the top-fifth's. Similarly, workers' pay increased steadily in the 1990s, ending a downward trend that began in the mid-1980s. From 1993 to 1999, real average hourly wages began rebounding toward their pre-1980s level.

These numbers clearly show that income inequality is no longer widening, if current trends continue, should begin shrinking. This striking turnaround turns conventional wisdom about inequality on its head. According to the President's Economic Report:

"Whatever the explanation for the growth in inequality during the 1980s, the recent experience suggests that it is time to reappraise the inevitability of the allegedly adverse impacts of technology and trade. It is time to look at the ways in which they may actually help foster growth with equity, and to recognize that a flexible economy can adjust to these changes."

Social progress in the 1990s was made possible by the Clinton administration's economic policies, which laid a foundation for rapid growth and low inflation. Those policies encouraged fiscal discipline, global competition, flexible labor markets, transparent capital markets, deregulated businesses, rapid communications, and limited government interference in markets, and they paid off in much higher productivity. With productivity increasing rapidly, super-strong economic growth can coexist with low price inflation. Therefore, the New Economy of the 1990s could grow more rapidly and employ more people than would have been considered sustainable in the past.

An economy with rapid productivity growth and low unemployment is essential for social progress. However, the recent social gains were not just an incidental byproduct of economic success. Enlightened social policies have made an enormous difference. By reforming welfare based on the principles of work and responsibility, cutting taxes for lower-income workers (especially by expanding the Earned Income Tax Credit, or EITC), and holding the line on payroll taxation of low- and moderate-income workers, President Clinton and

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congressional leaders helped translate economic growth into rising incomes for all. But this is no time for complacency. As the 2000 Economic Report of the President states, "Although the trend of rising inequality has been stopped, it has not been reversed." To continue narrowing disparities of income and wealth, progressives should propel the New Economy forward by maintaining fiscal discipline and fending off demands for protectionism and re-regulation; strengthen work-based social policies by making sure that work pays; encourage all workers to save, build financial assets and become stakeholders in the New Economy; and expand public and private investment in education and knowledge, the real sources of economic progress in the Information Age.

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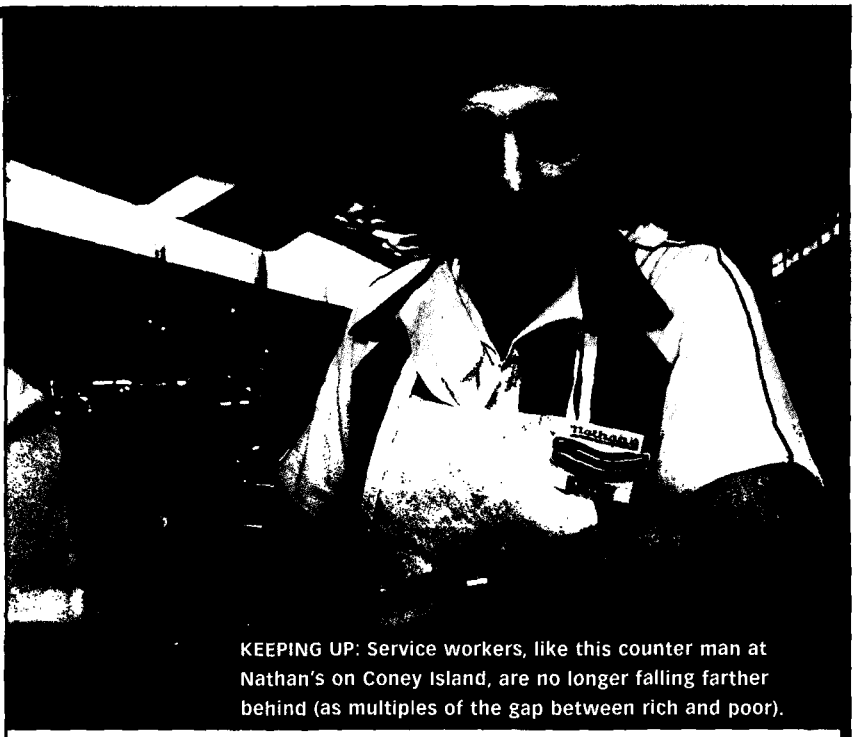

KEEPING UP: Service workers, like this counter man at Nathan's on Coney Island, are no longer falling farther behind (as multiples of the gap between rich and poor).

Since 1995, productivity growth has averaged 2.9 percent a year, compared to 1.6 percent in the 1980s.

Table 1. Growth in Family Income by Income Groups (Percent)

	Low	*Low-Mid*	*Middle*	*Mid-High*	*High*
1993 to 1998	14	12	12	10	12
1969 to 1993	-17	-9	0	11	31
1966 to 1969	12	11	11	11	12

Although the economy has had its ups and downs, the Clinton era is the first in almost three decades in which people's earnings have risen in all five income groups.

Table 2. Growth in Family Income by Education (Percent)

	Less than 9th Grade	*9th to 12th (no diploma)*	*High School Graduate*	*Some College, No Degree*	*Bachelor's Degree*	*Master's Degree*
1991 to 1998	10	4	8	6	13	17
	Less Than 9 years	*High School, 1-3 Years*	*High School, 4 Years*	*College, 1-3 Years*	*College, 4 Years*	*College, 5+ Yrs*
1976 to 1990	-11	-14	-4	3	11	13

The incomes of those with limited educations have grown fast in the 1990s. Still, higher levels of education are a key to prosperity.

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CHILD LABOR PROTEST: Former child laborers take part in an anti-child labor demonstration in New Delhi, India. The International Labour Organization believes that around 250 million 5- to 14-year-olds are employed, half of them full-time. The ILO's programs in India and Bangladesh have met with substantial success in combating child labor.

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Act globally

The President says we must "put a human face on the global economy." This requires a new policy framework that not only promotes economic leadership but also addresses the legitimate issues raised by globalization. Here are four steps for getting started.

by Claude G.B. Fontheim & Jeremy B. Bash

Economic globalization has helped power the longest-running economic expansion in American history. Yet public consensus about American engagement in the global economy is fragile, and the domestic politics of economic globalization are often divisive.

The issue divides both political parties but is especially contentious within the Democratic camp. President Clinton, Vice President Gore, and other centrist Democrats advocate expanded trade and increased leadership on the world stage. Other key Democratic constituencies — such as mainstream unions and environmental groups — also promote an internationalist agenda, but their skepticism of trade has caused them to oppose legislation or agreements that would expand trade and foster economic engagement.

This divide urgently invites construction of a new policy framework that will both promote American economic leadership and address legitimate issues and concerns related to globalization. President Clinton has laid the foundation for such a framework in his call to "put a human face on the global economy." Now we must do the hard work of developing a common ground on which those who favor economic engagement and those who are genuinely concerned about trade's impact on issues ranging from jobs, living standards, and the environment to human rights and food safety can stand. In this article, we outline a policy framework that addresses labor issues, much of which is applicable to these other issues as well. This policy framework rests on four pillars:

1. Expanding the winner's circle for workers at home and abroad
2. Building credible and effective international institutions
3. Advancing the rule of law
4. Promoting corporate citizenship

1. Expanding the Winner's Circle

First, we must promote an agenda that expands the winner's circle by giving workers

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the tools they need to succeed in a more integrated global economy. These tools include lifelong access to quality education and training; portable worker benefits such as pensions and health insurance; and wealth-building assets, such as enhanced employee stock-ownership programs. (For a detailed discussion of a domestic agenda, see "Winner's Circle," page 12).

But if we are serious about raising living standards everywhere, the next step must be to expand the winner's circle on the international stage. This can best be accomplished through programs developed in the same spirit as the domestic approach described above, but adapted for the environment of developing or transitioning economies. Such programs should be driven by the World Bank and other multilateral development banks, which can provide financial resources and marshal technical expertise. Working with local actors (governments, NGOs, etc.), these international institutions should create what we call "Workforce Development and Modernization Partnerships" (WDMPs) to pursue these goals:

- the construction of a modern social safety net (unemployment insurance, transitional assistance, etc.) in those countries where it does not already exist.
- establishment of training and education programs tied to real skill needs in the local economy. In developing economies, this may mean offering technical skills to workers who are transitioning from agrarian to industrial employment. In transitional economies, this may mean retraining and rapid re-employment programs.
- lending to employers to foster job creation and micro-lending to workers to start their own local enterprises.

There is precedent for this type of approach. The World Bank in 1998 committed roughly 50 percent of a four-year, $2 billion program to retrain more than 100,000 coal workers in Poland. The World Bank loans help the government offer free training courses for those seeking alternative employment; while workers take this course, they still earn part of their previous salary. That same year, the Inter-American Development Bank approved 10 projects that aimed to reform and improve labor markets in Latin America by strengthening workforce skills in specific industries in Brazil, Peru, and the Caribbean; by implementing worker training programs in Argentina; and by partnering with the private sector to upgrade work-based continuous training and education programs. These and other projects can serve as a template for a WDMP program aimed at providing workers with the tools they need to succeed in the global economy.

Finally, we can expand the winner's circle abroad through the expanded use of preferential trade arrangements with the developing world, such as the African Growth and Opportunity Act and Caribbean Basin Initiative.

"Local actors and international institutions can partner to create modern safety nets, establish relevant education and training programs, and foster job creation through lending programs."

2. Building Credible and Effective Institutions and Agreements

The United States should lead the world in developing credible and effective international agreements and institutions to address labor, environmental, and other issues. Our focus here is on labor issues. Many labor advocates propose inserting these issues directly into international trade agreements or institutions like the World Trade Organization. This strategy, however, would relegate labor issues to institutions in which they will always take a back seat to trade and economic matters. Labor issues deserve their own credible and effective institutions. Furthermore, any effort to negotiate labor standards in the WTO or link such standards to trade sanctions will ultimately undermine the WTO's ability to fuel economic growth by opening markets.

Reinvent the ILO. The place to start is at the International Labour Organization (ILO). Unlike the WTO or other international economic institutions, the ILO's chief mission is to raise labor standards. The ILO has enjoyed some success: Its International Programme on the Elimination of Child Labour (IPEC) has helped alleviate child labor problems in Bangladesh and Pakistan — two countries where the problem has been most pronounced.

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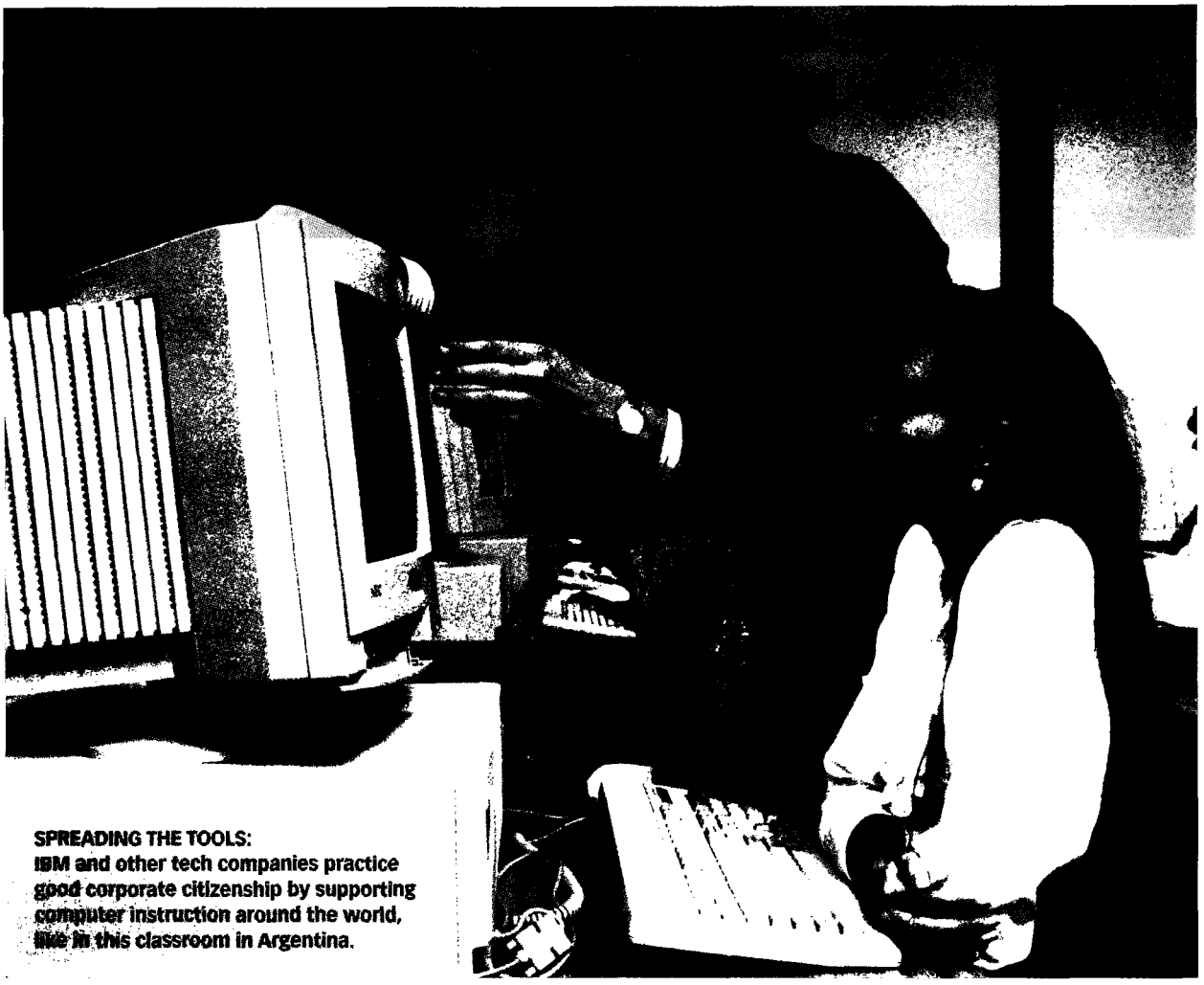

SPREADING THE TOOLS:
IBM and other tech companies practice good corporate citizenship by supporting computer instruction around the world, like in this classroom in Argentina.

But in general, the ILO has lacked the means to be effective (hence the desire of some to bring labor issues into the WTO).

The next administration should help reinvent and upgrade the ILO. First, we should develop a consensus with other developed countries to invest substantial new resources that will scale up ILO programs operated in partnership with local business, workers, and governments that are aimed at eliminating poor labor practices. The ILO can thus raise labor standards by providing effective resources — not through global regulation, but through bottom-up programs that help local entities solve the problem. Such an approach is essential if we are serious about working with developing countries to enhance the welfare of their own people. Without their active support, efforts to promote American values will look more like paternalism or protectionism than a genuine effort to elevate workers.

Second, the ILO and World Bank need to strengthen and institutionalize their relationship, working together to design incentives for upgrading labor practices. The World Bank could provide important incentives for governments to cooperate and participate in ILO programs by funding compliance and workforce programs in partnership with the ILO. This would not only strengthen the ILO's hand in countries with World Bank loans, it would also give the ILO greater resources to do its job.

Third, many trade preferences, which are already linked to labor standards, such as the Generalized System of Preferences (GSP), could be made contingent on compliance or cooperation with ILO programs to implement

"Developing the rule of law abroad serves American commercial interests, provides the means to enforce labor standards, and serves other foreign policy goals, from protecting human rights to impeding narcotics traffic."

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"During his recent trip to Bangladesh, the President announced American support for several programs run by the International Labour Organization to combat child labor and improve working conditions for women. These can be a template for others."

and enforce core labor standards. The GSP is a program that allows certain products from developing countries to enter the United States duty-free. If we can convince other developed countries to join us in making their trade preferences contingent on ILO compliance, we would create a powerful incentive that would give real clout to the ILO in a way that does not run afoul of the WTO. For this approach to work, the benefits must be reliable and large.

The administration is wisely increasing investments in ILO programs. During his recent trip to Bangladesh, the President announced American financial support for several ILO-run programs to combat child labor and to improve working conditions for women. These programs can provide a template for successful ILO-run programs elsewhere in the developing world.

Upgrade U.S.-based programs. In addition to the Department of Labor, there are other U.S. government institutions that can play an important role in addressing labor issues. It is time for these programs to be elevated and expanded. For example, labor attachés in U.S. embassies help educate American firms about local labor laws and practices, help companies and their suppliers set up compliance monitoring programs, and keep the American government and public apprised of labor abuses. The administration increased the number of attachés from 35 to 50. The next administration should set a goal of placing a labor attaché in the majority of our embassies, particularly in the developing world. A second example is the special representative for international labor affairs, a position created to advise the secretary of state and President on international labor issues and to coordinate international labor policy. We should raise the prominence of this position by elevating the representative to ambassadorial rank.

Create an International Environmental Organization. As others have suggested, the United States should work with its allies to create a Global Environmental Organization (GEO) to develop and enforce new international agreements on specific environmental problems.

3. Advancing the Rule of Law

Developing the rule of law abroad serves American commercial interests, provides the means to enforce labor standards, and serves other foreign policy goals, from protecting human rights to impeding narcotics traffic. For example, the most serious concerns about labor standards could be addressed in part by focusing on three recurring rule-of-law problems: corruption, weak law enforcement, and weak non-independent judiciaries. Many developing countries have adequate labor laws on the books, but they are not enforced because they have ineffective legal systems. Throughout the developing world, there are too few labor inspectors; many are corrupt; and workers have little access to courts.

The U.S. government currently promotes rule of law through many venues, including the U.S. Agency for International Development, the United Nations, and direct technical assistance. Vice President Gore's bilateral commissions with Russia and with South Africa have both had standing committees on law enforcement, which have provided technical assistance to fight corruption and promote rule of law. The U.S.-China Presidential Summit in April 1999 also concluded with a bilateral commitment to fight corruption and strengthen rule of law in China. Many American companies, and other private enterprises, such as the Ford Foundation, also promote rule-of-law issues. However, there is no single U.S. government-sanctioned institution that can centrally marshal and coordinate all available resources, act as an effective advocate and catalyst for change, and serve as a credible monitor.

Create a National Endowment for the Rule of Law. Our efforts to expand the rule of law should be centralized in a new National Endowment for the Rule of Law (NERL). The National Endowment for Democracy (NED) is a good model for what NERL could look like. NED is a private, nonprofit, grant-making institution devoted to promoting democracy abroad. One of the innovations of NED is that it funds its programs through four core institutes — one run by Democrats, one by Republicans, one by labor unions, and one by the business community — a combination

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that has proved successful in promoting various viewpoints and areas of expertise. Similarly, a National Endowment for the Rule of Law could become an important global resource for promoting the rule of law.

Like NED, NERL could advise legislators and run training programs for judges, lawyers, judicial officials, law enforcement, and regulatory agencies. It could also broadcast radio programs into developing countries that air information about local labor laws and the court system, and work with the American Bar Association and other groups to promote exchange programs between American lawyers and jurists and their foreign counterparts.

4. Promoting Corporate Citizenship

As barriers to international commerce fall, the private sector's impact on the lives of most people will continue to grow. Thus, if globalization is to be an even stronger force for improving labor standards and environmental protection, the role of corporate citizenship must be better understood and promoted.

Many companies have found that good corporate citizenship abroad can advance their business goals. For example, Citigroup works with micro-credit institutions in Latin America and Asia to lend money to people who would not otherwise have access to capital. IBM and other technology companies have undertaken major initiatives to put computers in schools around the world and to teach students computer skills. Over the long term, programs of this sort succeed because they are good business. Good corporate citizenship ranges from social responsibility and philanthropic activities that enhance a corporation's "reputational capital" and are simply the right thing to do, to sound business practices that have a profound positive effect. For example, in his new book, *Profits and Principles,* Michael A. Sanatoro writes: "Western firms are dramatically improving the lives of many Chinese citizens. The changes are not, moreover, solely material. Western companies also are imparting radically new ideas and values to their workers that are helping to foster democracy and human rights in China." For example, he cites the case of a new Motorola facility that empowers workers to speak out — a radical notion in China. To be sure, public scrutiny has served as a catalyst for American companies to institute new corporate compliance and social responsibility programs. But, as many companies have now learned, corporations can help raise labor standards here and abroad simply by engaging in what they do best. And the U.S. government should reward companies that do well by doing good. We should design an award for good corporate citizenship, like the Commerce Department's sought-after Malcolm Baldridge Awards for Quality, that is prestigious and non-political.

Conclusion

Globalization has erased the easy divisions between domestic and foreign policy and between economic and non-economic issues. International commerce intersects with education, training, wage and hour laws, health care, law enforcement, human rights, the environment, monetary policy, diplomacy, and many other disciplines. A policy approach that fails to recognize this integration of priorities is destined to fail.

Some argue that we must decide between economic engagement, on the one hand, and worker rights, environmental protection, human rights, food safety, and improved living standards, on the other. This posits a false choice. Indeed, we believe that American leadership in the global economy is the best way to guarantee greater protections for workers and the environment. Our challenge is to construct a set of policies that will make the global economy work for everybody, especially those who are most vulnerable to shifts in the economic order.

We have not attempted to lay out every policy prescription, but rather, we offer a framework for moving the debate beyond the false choice that has, until now, undermined public consensus on American leadership in the global economy. This framework is based on the principle that between extreme laissez-faireism and government command-and-control lies a Third Way — one that will put a human face on the global economy and raise living standards both at home and abroad. ▣

"Many companies have found that good corporate citizenship abroad can advance their business goals. For instance, Citigroup works with micro-credit institutions in Latin America and Asia to lend money to people who would not otherwise have access to capital."

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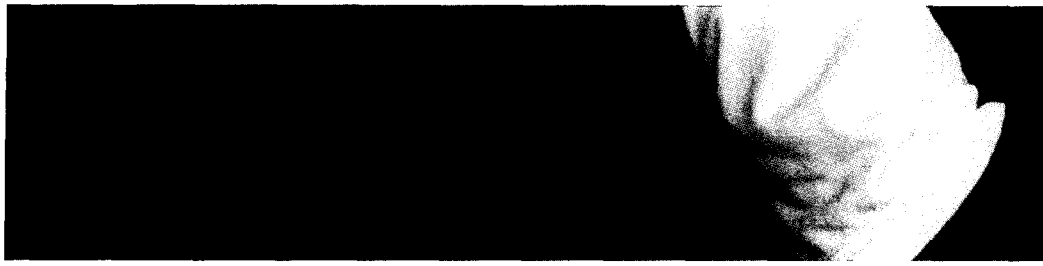
10 Rules of the road

by Robert D. Atkinson



A New Economy requires a new framework for government and public policy. To be effective, this framework must be consistent with the unique properties and logic of the New Economy. The following 10 "rules of the road" were developed as signposts to guide local, state, and federal policymakers in crafting a policy framework for the New Economy.

Robert D. Atkinson is director of the Technology and New Economy Project at the Progressive Policy Institute. These principles are based in part on a report from the Institute's New Economy Task Force, entitled Rules of the Road: Governing Principles for the New Economy. *The task force is co-chaired by U. S. Senate Democratic Leader Tom Daschle and Ted Waitt, chairman of the board of Gateway Inc.*

The report is available at http://www.dlcppi.org/ppi/tech/tech_taskforce.htm.

RULE #1 Spur Innovation to Raise Living Standards

New economic research shows that innovation plays a central role in productivity growth in the New Economy. Innovation and productivity are the prerequisites for higher wages and expanded opportunity; they are also critical to addressing a host of social needs, from averting a future Social Security crisis to improving human health and solving global warming. As a result, government must be on the side of policies that boost innovation and foster higher productivity. It should oppose policies that seek to divide a slowly growing pie, protect or reward special interests at the expense of overall economic progress, or slow down the process of change.

Innovation and change are disruptive. They displace workers; they cause firms, and even entire industries, to fail; they lead to industrial and economic restructuring in cities and sometimes even in whole regions; and they upset traditional ways of doing things, making some skills obsolete. There is every reason to believe that this will be true in the New Economy and spark strong political demands to insulate affected segments of the economy and slow down economic change.

Such demands, while understandable, inherently deny opportunities to less politically powerful interests in the guise of "protecting" those with clout. For example, there is a risk that the Internet revolution will be held back as old economy actors, such as travel agents, stockbrokers, college professors, car dealers, and wine wholesalers, seek to use government to shelter them from the threat of innovative and more productive e-commerce companies. If government is to promote fast-growing, widely shared prosperity, it must facilitate, rather than resist, economic modernization.

RULE #2 Expand the Winner's Circle

Ensuring that the benefits of innovation and change are spread broadly will require that all Americans, including those not yet engaged in or benefiting from the New Economy, have access to the tools and resources they need to get ahead and stay ahead.

As the economy has become increasingly volatile and knowledge-based, success for people, organizations, and entire communities is more than ever determined by the ability to learn and adapt. Government needs to counterbalance the tendency toward a new division of society based on cognitive ability, learning, and skills.

As the economy churns — destroying some jobs while creating others — government needs

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for governing in the New Economy

to ensure that employee benefits like health insurance and pensions are portable, that workers can access a state-of-the-art system of rapid re-employment, and that all workers have expanded opportunities for capital ownership. In a skill- and knowledge-based economy, government must provide every American with access to continual and affordable lifelong education.

As information technology becomes increasingly important, government needs to enable widespread access by ensuring that public libraries, schools, job centers, community centers, and all regions of the nation are connected to the Internet and that individuals have the skills they need to use these technologies.

"To spur innovation and equip citizens to win in the New Economy, government should invest more in the knowledge infrastructure of the 21st century."

RULE #3 Invest in Knowledge and Skills

To spur innovation and equip citizens to win in the New Economy, government should invest more in the knowledge infrastructure of the 21st century: world class education, training and lifelong learning, science, technology, technology standards, and other intangible public goods. These are the essential drivers of economic progress.

A global, hyper-competitive economy has made it increasingly difficult for the private sector to maintain its investments in these kinds of activities, especially training and mid- to long-term research. Therefore, government investments in science and technology should be increased, and private sector research should be encouraged by expanding and making permanent the R&D tax credit and supporting industry-university collaborative R&D. Moreover, government should increase its investments in education and training, as they are critical to ensuring that companies have the skilled workers they need, and that workers have the skills they need to prosper in the New Economy.

RULE #4 Grow the Net

The Internet is a critical component of the emerging digital economy. In the old economy, the key driver of economic growth was mechanization of production. In the New Economy, the key driver will be digitization.

Policymakers should craft a legal and regulatory framework that supports the widespread growth of the digital economy in such areas as taxation, encryption, privacy, digital signatures, telecommunications regulation, and industry regulation (in banking, insurance, and securities, for example). For example, government should avoid adopting privacy regulations requiring "opt-in" and other stringent rules that would limit innovation and "mass customization."

RULE #5 Let Markets Set Prices

In the old economy, government often regulated prices when national markets were dominated by oligopolies or monopolies. In those cases, the economic costs of government intervention were manageable. But in the new, more competitive economy, distorted prices are much more likely to lead to economically inefficient decisions by consumers and producers.

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Therefore, in the absence of clear market failures, markets, not governments, should set prices of privately provided goods and services.

In this critical transition period, policymakers must embrace forward-looking, innovation-producing investments (e.g., industry-university collaborative R&D) while at the same time distinguishing between programs that address legitimate market failures and industry subsidies, price supports, and regulated prices that foster economic inefficiency. Government must strive to reduce or eliminate the tariffs, the unnecessary price regulations, and the array of government protections for entrenched interests that do not increase the economy's innovative or productive capacity. For example, federally subsidized flood insurance is an incentive for more homeowners and companies to locate in flood plains, which ultimately drives up the overall cost of flood damage. Similarly, controlling the costs of health care is a noble goal, but doing so by setting the prices of drugs or medical devices in the long run only restricts innovation and lowers the quality of medical care.

"The Federal Communications Commission should set rules to open telecommunications markets to robust competition and ensure network inter-operability and consumer protection."

RULE #6 Open Regulated Markets to Competition

Economists have long acknowledged that competition keeps prices down. The New Economy creates another critical reason for competition: competition drives innovation and ultimately provides the greatest benefits to consumers. Of course, government must continue to provide commonsense health, safety, and environmental regulations. However, government should move away from regulating economic competition among firms and instead promote competition to achieve public interest goals of lower costs, new products, and greater consumer choice. For example, the Federal Communications Commission should continue to set rules to open telecommunications markets to robust competition and, once that occurs, to step back and ensure network inter-operability and consumer protection. For example, the FCC has made entry into long distance markets by local telephone monopolies contingent on the companies' opening their existing wired networks to competitors.

RULE #7 Let Competing Technologies Compete

In the New Economy, technology is not just the province of Silicon Valley; it is the catalyst for profound change throughout the economy and society. Technological innovation has now become central to addressing a wide range of public policy goals, including better health care, environmental protection, a renewed defense base, improved education and training, and reinvented government.

We should look for technology-enabled solutions to public problems, but not so that today's winners are frozen in place at the expense of tomorrow's innovators. As a case in point, in the 1980s the French government made an early leap into the Information Age by providing free Minitel terminals to all French households. However, because the Minitel systems are incapable of supporting modern Internet technology, France became locked in to an obsolete technology and now lags significantly behind in Internet usage. Given today's rapidly changing technological capabilities, locking in any particular technology through regulation or massive public investment would run similar risks.

RULE #8 Empower People With Information

In the old economy, information was a scarce resource to which few outside of large corporations and governments had access. In the New Economy, access to information is becoming ubiquitous, giving individuals greater power to make informed choices. Governments should encourage and take advantage of this trend to address a broad array of public policy questions by ensuring that all Americans have the information they need.

For example, policymakers have required TV manufacturers to install the violence-blocking V-chip to give parents control over objectionable programming. But the application of the principle of providing people with tools and information to make informed choices goes far →

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What Works/Chicago manufacturing center

Manufacturing extension partnerships help small businesses adapt / by Erik Gunn

For most of its 55-year history, Panek Precision Machining in suburban Chicago was a shoestring operation — a small job shop that CEO Gregg Panek says "used to make machine parts for anybody."

A few years ago, though, the company narrowed its focus. Today more than 80 percent of Panek Precision's business is making components for suppliers in the auto industry: specialized nuts and cylinder ends for shock absorbers, machined components for exhaust systems, and more. And Panek Precision has been on a roll, its annual sales leapfrogging by 20 percent to 25 percent a year. This year the company is on track to take in $17 million in revenues. Employment has risen smartly, too, to more than 100 people.

The booming economy, a robust auto industry — all have helped. But they only tell part of the story. Gregg Panek gives much of the credit for his company's growth spurt to the Chicago Manufacturing Center (CMC).

CMC is part of a national "manufacturing extension partnership" network established by the U.S. Commerce Department's National Institute of Standards and Technology. The network is made up of private agencies that contract with the government, and the manufacturing extension centers operate much like the agricultural extension agents who helped spread the secrets for better and more productive crop yields to the nation's farmers. These centers offer world-class expertise to the nation's hundreds of thousands of small manufacturers. CMC consultants have advised more than 1,000 Chicago area companies in the last six years, helping them to ratchet up productivity, raise quality standards, and implement a wide range of cost-cutting improvements.

Never have small companies been more in need of outside help. In the current environment of intense global competition, small manufacturers face a dilemma. The pressure to drive out excess cost forces them to keep operations as lean as possible. At the same time, though, more and more of the big companies that they serve impose rigorous quality standards, which usually can be met only with specialized expertise that the small company typically lacks and can rarely afford to build in-house.

The latest set of such standards can be found in the auto industry, where manufacturers now require their suppliers to be certified as meeting a set of quality standards known as QS 9000. Panek Precision — just one of scores of companies that the Chicago Manufacturing Center has advised on QS 9000 certification — is in the final stages of meeting the standard. Panek Precision turned to CMC for guidance on selecting and installing a new computer network and related software capable of turning out the sort of detailed information that the new standard requires. More recently, the agency has helped the company make sure it can comply with the standard, and helped prepare it for formal certification.

CMC and the other 400 manufacturing extension partnership centers across the country target small to mid-sized firms that employ up to 500 people. These businesses account for nearly 99 percent of the nation's manufacturing companies and employ two-thirds of the manufacturing workforce. Yet despite their significant role in the economy, "small companies are not even on the radar scope" of the big consulting firms that advise large corporations, says George Alukal, CMC's vice president of corporate quality and performance.

Because they are not just another layer of bureaucracy but rather contract agencies that must derive some of their revenues from client fees, manufacturing extension partnership centers are a blend of government and the private sector. CMC is illustrative: About 30 percent of its funds come from the federal government; 40 percent from the city of Chicago, surrounding counties, and the state of Illinois; and the rest from the modest fees it charges client firms. Moreover, says Helen Squires, CMC's vice president for corporate and client communications, to keep the government funds flowing the agency is accountable for results: A year after the agency completes a project, telephone surveyers ask the client to quantify the project's benefits in terms of job creation and retention, sales increases, capital investment, or savings in labor, materials, or inventory costs.

MEETING THE CHALLENGE: Refined quality controls keep Panek competitive.

Measures such as those reflect government's underlying interest in supporting manufacturing extension partnership centers like the CMC. By helping companies become more productive, they can help stabilize and expand the local economy, its jobs, and its tax base.

At Panek Precision, the company's future as an auto-industry supplier will turn on its QS 9000 certification, now in its final stages. There's no question in Gregg Panek's mind where credit will belong. "We couldn't have done it own our own," he says. "We wouldn't have even known who to call."

Erik Gunn is a freelance journalist based in Wisconsin.

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PRESERVE DIVERSITY: Letting many technologies bloom is a key to innovation and discovery in all fields. We must avoid getting locked into a single standard, as France did when it provided free Minitel terminals (above) to everyone. Once ahead of the curve, they are now obsolete.

beyond gadgetry. Policymakers could improve the quality of the health care in the United States by enabling consumers to have ready access to their own health records and more information about health care providers' track records. Similarly, publishing real-time environmental emissions information could lead to reduced pollution. Finally, making a wide range of government information available over the Internet could lead to more open and accountable government.

RULE #9 Demand High-Performance Government

Government should become as fast, responsive, and flexible as the economy and society with which it interacts. The new model of governing should be decentralized, non-bureaucratic, catalytic, results-oriented, and empowering. In some cases, as was recently done to the Patent and Trademark Office, government agencies should be transformed into performance-based organizations that have both the accountability and flexibility to achieve publicly defined goals. In other cases, as many municipalities have done, governments should let organizations, both public and private, compete to deliver public services.

When designing solutions to compelling public concerns, such as reducing industrial pollution or delivering world-class public education, government should hold organizations and individuals accountable for meeting goals, while allowing them flexibility to achieve those goals. Instead of prescribing exactly how federal money is spent, government should concentrate on holding schools accountable for achieving high standards and let the schools themselves devise the means of attaining those goals.

Procedurally, governments should use information technologies to fundamentally re-engineer government and provide a wide array of services through digital electronic means to increase efficiency, cut costs, and improve service. Digitizing government is the next step in re-engineering government. For example, the federal government should let citizens and businesses file their taxes directly from their PCs.

RULE #10 Replace Bureaucracies with Networks

In the old economy, bureaucracy was how we addressed many major public policy problems. In the New Economy, we must rely on a host of new public-private partnerships and alliances.

In the New Economy, boundaries of all sorts have blurred. In what has been described as "coopetition," companies are entering into partnerships and alliances of all forms. Rather than acting as the sole funder and manager of bureaucratic programs, New Economy governments need to co-invest and collaborate with other organizations — networks of companies, universities, non-profit community organizations, churches, and other civic organizations — to achieve a wide range of public policy goals. Government needs to co-invest in these efforts and foster continuous learning through the sharing of best-practice lessons. For example, rather than expand government-run bureaucratic training programs, they should provide matching funds to industry and union-led regional training alliances directly run by groups of companies. Most important, the collaborative network model requires government to relax its often overly rigid bureaucratic program controls and instead rely on incentives, information sharing, competition, and accountability to achieve policy goals. ■

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Six Debates/Rules for a digital economy

Property rights, structure, access, privacy, governance, and inclusion

At this early stage in the transition to a digital economy, it's not clear how best to shape the rules governing the E-conomy to promote open competition and open institutions. It is clear that government policies that define property rights, establish default contract terms, protect privacy and security, and shape expectations of behavior can accelerate or retard economic revolutions.

Take a case from the early days of mass production a little more than a century ago. The combination of the telegraph, the railroad, and the refrigerated boxcar made possible the sale of cheap mass-produced meat. Chicago-based corporations invented the assembly line, mass-dressed the beef in Chicago, shipped it to the population centers on the East Coast, and undercut East Coast slaughterhouses by perhaps a third. The power of mass production could be realized — except where long-distance shipment was blocked by state regulations requiring on-the-hoof inspections within the state.

Without the right rules — in this case federal pre-emption of health and safety regulations affecting interstate commerce — America would not have developed a high-productivity, mass-production Chicago meatpacking industry. Massive investments in large factories were needed to realize economies of scale in serving the mammoth national market; these required that savings be gathered out of tens of thousands of pockets to provide the equity capital. But who, in the absence of the protecting shield of limited liability, would commit their savings to equity investments in huge bureaucratic enterprises over which they had no control? At the time, limited liability was considered an exorbitant new privilege for investors. Yet in retrospect we see it as necessary for higher productivity through large-scale industry.

The need to get rules right frames six policy debates:

First is the debate over definitions of intellectual property rights. Should our personal information — data about us as economic, social, and indeed genetic beings — be somebody's property? Can an enterprise "own" its business model and keep others from using it?

The second debate is over industrial structure. When should monopolies be broken up? What restrictions should be placed on firms with dominant positions that some claim provide "essential services"? Will it be possible for the E-conomy to have oligopolies that produce most of the benefits of competition and most of the advantages of economies of scale, thus allowing us to have our cake and eat it too, or will we have to choose between tolerating monopoly or abandoning efficient scale?

The third debate is over access. Will firms that make up one layer of the network, such as cable companies providing broadband Internet access, be allowed to prescribe their users' access to other ISPs? Or should they be required, like traditional telephone companies, to open their systems to other providers?

The fourth debate is over privacy and security. Who "owns" and who can make use of the massive electronic trails that each of us leaves on the Net? How much should each of us be able to shield knowledge of our actions and preferences not just from the government, but also from private companies that use this knowledge to develop more personalized services and gain higher revenues? What kind of balance should be struck between privacy of personal information and the commercial use of that information?

This and other related Internet issues, including taxation, encryption, consumer protection, copyright, and intellectual property, are thorny questions that will need political definition. But policies to calibrate this balance cannot just be domestic. There will need to be international rules and agreements. Thus, the fifth debate is over how to create an international Internet governance system that respects national sovereignty but does not restrict the growth of e-commerce.

The sixth debate is over inclusion: fostering digital opportunity. Generations ago America chose to include all Americans in the telephone system. While it made sense to create rules for universal access to the telephone, it may not for Internet-based information systems. There is no single provider to internalize the cross subsidies. There is no simple equivalent of a dial tone and a local call. And unlike the telephone or television, the greater the education level of the user the greater the value, in most cases, of the benefit of Internet access.

We need policies to foster widespread digital access. The coming of the E-conomy means, as has always been the case with technological revolutions, creative destruction: the destruction of particular jobs, professions, and specialties and the emergence of new ones. The people who fill the new jobs are not necessarily the people who filled the old ones. Hence the shift to the E-conomy will not command broad political consent unless it is seen to be based on the inclusion of everyone in the economic transformation and the wide diffusion of the benefits. For if the benefits are not broadly seen as accessible, and broadly shared, the durable political coalition to support policies to speed the coming of the E-conomy will not exist. And the transformation will be stunted and delayed.

—Stephen S. Cohen,
J. Bradford DeLong,
John Zysman

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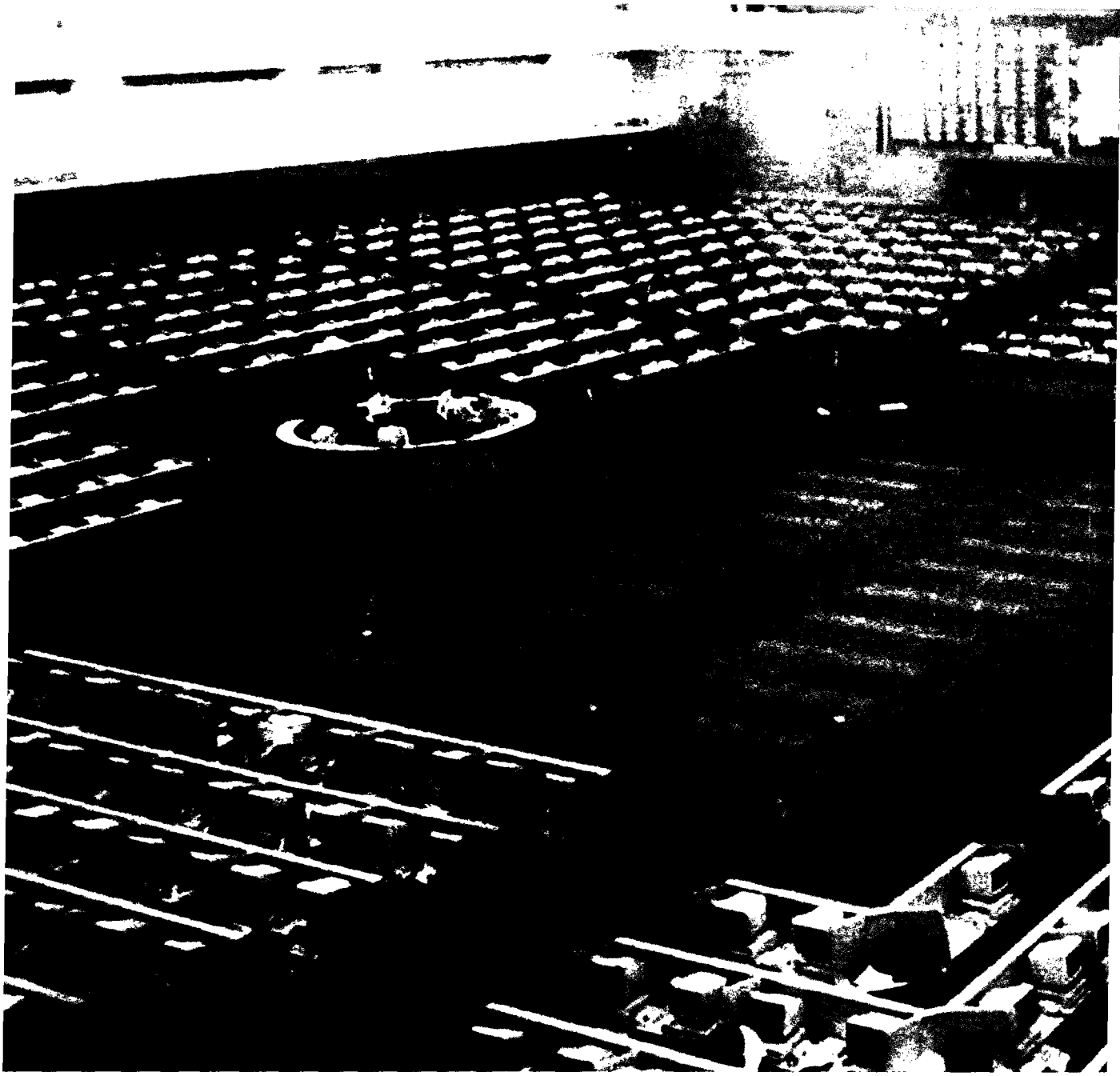

BULLS INVADE CHINA SHOP: American businesses want access to China's markets, including the Shanghai Stock Exchange (above), which opened in December 1997. President Clinton, who supports permanent normal trading relations (PNTR) with the Chinese, joins Chinese President Jiang Zemin (inset) as they listen to their national anthems on Beijing's Tiananmen Square in July 1998.

The United States cannot deny China entry into the WTO. Our only decision is whether we will share in the benefits of China's economic growth, and gain our best opportunity to effect positive change there.

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America's stake in China

by President Bill Clinton

Last fall the United States signed the agreement to bring China into the WTO, on terms that will open its market to American products and investment. When China concludes similar agreements with other countries, it will join the WTO. But for us to benefit from that we must first grant it permanent normal trade relations (PNTR) — the same arrangement we have given other countries in the WTO. I submitted legislation to Congress to do that, and I again urge Congress to approve it as soon as possible.

This article is adapted from a speech delivered by the President in Washington, D.C., on March 8, 2000.

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"The question is not whether we approve or disapprove of China's practices. The question is, what's the smartest thing to do to improve these practices?"

Congress will not be voting on whether China will join the WTO. Congress can only decide whether the United States will share in the economic benefits of China joining the WTO. A vote against PNTR will cost America jobs, as our competitors capture Chinese markets that we otherwise would have served. Supporting China's entry into the WTO, however, is about more than our economic interests. It is clearly in our larger national interest. It represents the most significant opportunity that we have had to create positive change in China since the 1970s, when President Nixon first went there, and later in the decade when President Carter normalized relations.

In the early 1900s, most Americans saw China either through the eyes of traders seeking new markets or missionaries seeking new converts. During World War II, China was our ally; during the Korean War, our adversary. Later, it was a counterweight to the Soviet Union. And now, in some people's eyes, it's a caricature: Will it be the next great capitalist tiger with the biggest market in the world, or the world's last great communist dragon and a threat to stability in Asia?

We cannot control that choice, we can only influence it. We can work to pull China in the right direction, or we can turn our backs and almost certainly push it in the wrong direction.

The WTO agreement will move China in the right direction. It will advance the goals America has worked for in China for the past three decades. And it will advance our own economic interests.

Economically, this agreement is the equivalent of a one-way street. It requires China to open its markets, with one-fifth of the world's population — potentially the biggest market in the world — to both our products and services in unprecedented new ways. All we do [for China] is agree to maintain the present access which China enjoys [to our markets]. Chinese tariffs will fall by half or more over just five years. For the first time, our companies will be able to sell and distribute products in China made by workers here in America, without being forced to relocate manufacturing to China, sell through the Chinese government, or transfer valuable technology.

We'll be able to export products without exporting jobs. Meanwhile, we'll get valuable new safeguards against any surges of imports from China. We're already preparing for the largest enforcement effort ever given for a trade agreement.

If Congress passes PNTR, we reap these rewards. If Congress rejects it, our competitors reap these rewards. If we don't sell our products to China, someone else will step into the breach, and we'll spend the next 20 years wondering why we handed over the benefits we negotiated to other people.

We're going to continue our efforts not just to expand trade, but to expand it in a way that reinforces our fundamental values. Trade must not be a race to the bottom, whether we're talking about child labor or basic working conditions or the environment. The more we avoid dealing with these issues, the more we fuel the fires of protectionism. That's why we'll continue our efforts to make the WTO itself more open, more transparent, more participatory — and to elevate the consideration of labor and environmental issues in trade.

Most critics of the China-WTO agreement do not seriously question its economic benefits. They're more likely to say things like this: China is a growing threat to Taiwan and its neighbors; we shouldn't strengthen it. Or, China violates labor rights and human rights; we shouldn't reward it. Or, China is a dangerous proliferator; we shouldn't empower it. These concerns are valid. But the conclusion of those who raise them as an argument against China-WTO isn't. China is a one-party state that does not tolerate opposition. It does deny its citizens fundamental rights of free speech and religious expression. It does define its interests in the world sometimes in ways that are dramatically at odds from our own. But the question is not whether we approve or disapprove of China's practices. The question is, what's the smartest thing to do to improve these practices?

The choice between economic rights and human rights, between economic security and national security, is a false one. Membership

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in the WTO will not create a free society in China overnight, nor guarantee that China will play by global rules. But over time, it will move China faster and further in the right direction — and certainly will do that more than rejection would. To understand how, it's important to understand why China is willing to do what it has undertaken to perform in this agreement.

Over the last 20 years, China has made great progress in building a new economy, lifting more than 200 million people out of abject poverty; linking so many people through its new communications network that it's adding the equivalent of a new Baby Bell every year. Nationwide, China has seen the emergence of more than a million nonprofit and social organizations and a 2,500 percent explosion of print and broadcast media.

But its economy still is not creating jobs fast enough to meet the needs of the people. Only about one-third of the economy is private enterprise. Nearly 60 percent of the investment and 80 percent of all business lending still goes toward state-owned dinosaurs.

Much of China's economy today still operates under the old theory that if only they had shoveled coal into the furnaces faster, the *Titanic* would have stayed afloat. It is ironic that so many Americans are concerned about the impact on the world of a strong China in the 21st century. But the danger of a weak China, beset by internal chaos and the old nightmare of disintegration, is also real, and China's leaders know it.

China's leaders realize that if they open China's market to global competition, they risk unleashing forces beyond their control — temporary unemployment, social unrest, and greater demand for freedom. But they also know that without competition from the outside, China will not be able to attract the

MCDONALD'S AND THE MOUSE: American products, like fast food and Disney wares, already have a foothold in China. But normalized trade relations and China's WTO membership would send trade soaring, creating an even broader Western business presence. Many believe trade leads to political and cultural liberalization.

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investment necessary to build a modern, successful economy. And the failure to do that could be even more destabilizing.

With this agreement, China has chosen reform, despite the risks. It has chosen to overcome a great wall of suspicion and insecurity and to engage the rest of the world. The question for the United States is, do we want to support that choice or reject it, becoming bystanders as the rest of the world rushes in? That would be a mistake of truly historic proportions.

As we debate about China, it's easy to forget that the Chinese leaders and their people are also engaged in a debate about us. Many of them believe that we honestly don't want their country to assume a respected place in the world. If China joins the WTO, but we turn our backs on them, it will confirm their fears.

"In the past year, the number of Internet addresses in China has more than quadrupled. We know how much the Internet has changed America, and we are already an open society. Imagine how much it could change China."

Under this agreement, some of China's most important decisions for the first time will be subject to the review of an international body, with rules and binding dispute settlement. Opponents say China will just break its promises. Anyone who follows WTO matters knows that China is not the only state that could be accused of not honoring the rules-making process.

We're still better off having a system in which actions will be subject to rules and judgments passed by 135 nations. And we're far more likely to find acceptable resolutions to differences of opinion in this context than if there is none at all.

The change this agreement can bring from outside is quite extraordinary. But it will be nothing compared to the changes it will spark in China. By joining the WTO, China is not simply agreeing to import more of our products; it is agreeing to import one of democracy's most cherished values — economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people — their initiative, their imagination, their remarkable spirit of enterprise. When individuals have the power not just to dream, but to realize their dreams, they will demand a greater say.

Already, China's best and brightest are starting their own companies, or seeking jobs with foreign-owned companies. In fits and starts, for the first time, China may become a society where people get ahead based on *what* they know rather than *who* they know. Chinese firms are realizing that unless they treat employees with respect, they will lose out in the competition for top talent. The process will only accelerate if China joins the WTO.

There's something even more revolutionary at work here. By lowering the barriers that protect state-owned industries, China is speeding the process that is removing government from vast areas of people's lives.

In the past, virtually every Chinese citizen woke up in an apartment or a house owned by the government, went to work in a factory or a farm run by the government, and read newspapers published by the government. State-run workplaces also operated the schools where they sent their children, the clinics where they received health care, the stores where they bought food. That system was a big source of the Communist Party's power. Now people are leaving those firms. When China joins the WTO, they will leave them faster.

The Chinese government no longer will be everyone's employer, landlord, shopkeeper, and nanny all rolled into one. It will have fewer instruments with which to control people's lives. That may lead to very profound change.

In the new century, liberty will spread by cell phone and cable modem. In the past year, the number of Internet addresses in China has more than quadrupled from 2 million to 9 million. This year, the number is expected to grow to over 20 million. When China joins the WTO, by 2005, it will eliminate tariffs on information technology products, making the tools of communication even cheaper, better, and more widely available.

We know how much the Internet has changed America, and we are already an open society. Imagine how much it could change China.

There's no question China has been trying to crack down on the Internet — good luck! That's sort of like trying to nail Jello to the wall. I would argue that their effort just proves how real these changes are and how much they threaten the status quo. It's not an argu-

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ment for slowing down the effort to bring China into the world, it's an argument for accelerating that effort. In the knowledge economy, economic innovation and political empowerment will inevitably go hand in hand.

Bringing China into the WTO doesn't guarantee that it will choose political reform. But accelerating the process of economic change will force China to confront that choice sooner, and it will make the imperative for the right choice stronger. If China is willing to take this risk, how can we turn our backs on the chance to take them up on it?

Clearly, this is not, in and of itself, a human rights problem. But it is likely to have a profound impact on human rights and political liberty. Change will only come through a combination of internal pressure and external validation of China's human rights struggle. We have to maintain our leadership in the latter even as the WTO contributes to the former.

We sanctioned China under the International Religious Freedom Act last year. We're again sponsoring a resolution in the U.N. Human Rights Commission condemning China's human rights record this year. We will also continue to press China to respect global norms on nonproliferation. We will continue to reject the use of force as a means to resolve the Taiwan question. There must be a shift from threat to dialogue across the Taiwan Strait.

We must continue to defend our interests and our ideals with candor and consistency. But we can't do that by isolating China from the very forces most likely to change it. Doing so would be a gift to the hard-liners in China's government, who don't want their country to be part of the world — the same people willing to settle differences with Taiwan by force; the same people most threatened by our alliance with Japan and Korea; the same people who want to keep the Chinese military selling dangerous technologies around the world; the same people whose first instinct in the face of opposition is to throw people in prison. If we want to strengthen their hand within China, we should reject the China-WTO agreement.

Voting against PNTR won't free a single prisoner, or create a single job in America, or reassure a single American ally in Asia. It will simply empower the most rigid anti-democratic elements in the Chinese government. It would leave the Chinese people with less contact with the democratic world and more resistance from their government to outside forces. Our friends and allies would wonder why, after 30 years of pushing China in the right direction, we turned our backs, now that they finally appear to be willing to take us up on it.

The people with the greatest interest in seeing China change agree with this analysis. The people of Taiwan agree. The people of Hong Kong agree. Martin Lee, the leader of Hong Kong's Democratic Party, wrote to me that this agreement "represents the best long-term hope for China to become a member of good standing in the international community. We fear that should ratification fail, any hope for the political and legal reform process would also recede."

Most evangelicals who have missions in China also want China in the WTO. They know it will encourage freedom of thought and more contact with the outside world. Many of the people who paid the greatest price under Chinese repression agree, too. Ren Wanding is one of the fathers of the Chinese human rights movement. In the late 1970s, he was thrown into prison for founding the China Human Rights League. In the 1980s, he helped lead the demonstration in Tiananmen Square. In the 1990s, he was thrown in prison yet again. Yet, he says of this deal, "Before, the sky was black; now it is light. This can be a new beginning."

For these people, fighting for freedom in China is not an academic exercise or a chance to give a speech that might be on television. It is their life's work. They have risked their lives to pursue it.

If you believe in a future of greater prosperity for the American people, you certainly should be for this agreement. If you believe in a future of peace and security for Asia and the world, you should be for this agreement. It's a historic opportunity and a profound American responsibility. ■

"Bringing China into the WTO doesn't guarantee that it will choose political reform. But accelerating the process of economic change will force China to confront that choice sooner, and it will make the imperative for the right choice stronger."

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SWEATSHOP BACKLASH: In a 1995 survey, 78 percent of Americans said they would prefer to shop in stores committed to ending worker abuse. Demonstrators like these in San Francisco (above) let their feelings be known unequivocally. Charged with being "part of the problem," TV personality Kathie Lee Gifford (right) — whose signature line of clothes was made in low-wage Central American factories — led a campaign against child labor.

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Creating corporate social responsibility

Big American companies have cleaned up their acts overseas, and find it pays.

by Debora L. Spar

In 1996, Kathie Lee Gifford made front-page news. The well-liked TV personality had lent her name to a discount line of women's clothing that, it was discovered, had been made by underage Central American workers. That same year, the Walt Disney Co. was exposed contracting with Haitian suppliers that paid their workers less than Haiti's minimum wage of $2.40 a day. Nike and Reebok, makers of perhaps the world's most popular athletic footwear, were repeatedly criticized for similar transgressions.

In all these cases, the companies accused were U.S. manufacturers of consumer products. They were being targeted for human-rights violations committed abroad not by their own managers or in their own plants but by the subcontractors that produced their products in overseas facilities.

Traditionally, U.S. firms have argued that they cannot realistically or financially be held responsible for the labor practices of their foreign suppliers. In recent years, though, this attitude has started to change. As a direct result of heightened human-rights activism, sharper media scrutiny, and the increased communication facilitated by the Internet, U.S. corporations are finding it difficult to sustain their old hands-off policy. They have begun to accept responsibility for the labor practices and human-rights abuses of their foreign subcontractors. Much of this new activity clusters around the promulgation of voluntary codes of conduct, now seen as consistent with — indeed, reinforcing — a strong brand-driven business model.

As pressure for, and interest in, codes continues to mount, and as accounting firms eagerly offer to audit firms' compliance with the codes, such cases will probably proliferate. In the process, human rights are likely to improve.

Under these circumstances, the old Leninist link between multinational firms and foreign exploitation seems outmoded or even contradictory. Rather than having an interest in subverting human rights, corporations — particularly high-profile firms from open and democratic societies — may well see the commercial benefits of promoting human rights. This reversal is ironic and certainly not obvious. But in a world marked by international media and transnational activism, U.S. multinationals could be — indeed, may already be — powerful instruments in the pursuit of human rights.

During President Clinton's first term, for example, Labor Secretary Robert B. Reich launched a "No Sweat" campaign designed to steer garment makers toward compliance with U.S. labor laws and to expose retailers who might be purchasing garments made under sweatshop conditions. This was followed

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"Companies must weigh the advantages of lower-cost labor against the crush of negative publicity, the cost of public relations, and the possibility of consumer protests."

by the widespread publication of a Labor Department Trendsetter list of retailers that had publicly agreed to "demonstrate a commitment" to U.S. labor laws and to monitor working conditions. In August 1996 the White House established an Apparel Industry Partnership, which devised a workplace code of conduct defining decent and humane working conditions. Members of the Partnership also proposed that the code's adherents open their facilities to periodic inspections by independent monitors. Even more striking is Social Accountability 8000 (SA8000), an ambitious attempt by participating firms to comply with a certifiable set of labor and human rights standards, launched in 1997 by the Council on Economic Priorities and a group of influential companies.

The SA8000 initiative rests on market acceptance, not legal coercion. Firms would comply with the standards and the monitoring necessary to ensure compliance simply to win certification. Already, retail giants Toys 'R' Us and Avon have announced their intent to demand that all their suppliers become SA8000-certified.

It is easy, perhaps, to be cynical about these codes. But it is not clear that such skepticism is warranted. In fact, codes of conduct have already begun to be a significant factor in the pursuit of human rights. By changing the calculus of U.S. firms doing business abroad, codes can change their behavior.

The logic follows a pattern that one might call the spotlight phenomenon. When U.S. corporations go abroad, they take more than their capital and technology with them. They also take their brand names, their reputations, and their international images. When local producers in Vietnam, Pakistan, or Honduras exploit their workforce, few in the West hear of it, especially if the products are not exported to Western markets. U.S. multinationals, by contrast, bring with them the glare of public scrutiny and the changes it can induce in an increasingly global marketplace. They bring in their wake the scrutiny of U.S.-based activist groups and the international media.

The combination of an increasingly global economy and ever-more sophisticated and diverse communication channels has recently expanded the reach of even small-scale critics. On the Internet, grassroots activism has, quite literally, been electrified. Using inexpensive electronic mailing campaigns, human-rights groups can reach a far wider audience than in the past, drawing supporters from across national borders to mobilize consumer boycotts or political action campaigns. Once these campaigns reach the public arena, the perpetually hungry media is quick to bring attention to stories pitting giant U.S. corporations against hapless foreign workers.

Suddenly, companies must weigh the advantages of lower-cost labor or lower-cost inputs from abusive suppliers against the crush of negative publicity, the cost of public relations, and the possibility of consumer protests. More companies have come to realize that manufacturers who obey labor laws and treat their workers well also supply better products and are better business partners. Humane treatment and social responsibility reinforce a stronger brand image and are likely to come with higher quality (even if costs are slightly higher too).

In a 1995 survey, 78 percent of respondents said that they would prefer to shop at retail stores that had committed themselves to ending garment-worker abuse; 84 percent said they would pay an extra $1 on a $20 item to ensure that the garment had been made in a worker-friendly environment. Similar results appeared in a 1996 survey — only this time, nearly 24 percent said that retailers and not just manufacturers should take responsibility for preventing the use of sweatshop labor. Such polls do not, of course, necessarily predict consumer behavior, but they do seem to show the public's heightened awareness of human-rights issues. As public concern coalesces around issues of human rights, the promulgation of codes and standards completes the spotlight phenomenon. Once firms have adhered to publicly acknowledged standards, they magnify the effect of their own violations.

Already, early evidence supports the potency of the spotlight phenomenon. When reports surfaced that Reebok was purchasing soccer

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balls stitched by 12-year-old Pakistani workers, the firm created a new central production facility in Pakistan and established a system of independent monitors. Reebok affixed new "made without child labor" labels to its soccer balls. Starbucks Coffee, generally regarded as one of the most socially progressive U.S. firms, was heavily picketed in 1995 by activists demanding that the company keep closer tabs on the Guatemalan plantations from which it buys some of its coffee beans. The chain eventually complied, issuing a revised code of conduct and specific action plans for all of its supplier countries.

Recently, the spotlight has focused most frequently on Myanmar, whose ruling junta, the State Peace and Development Council, is one of the world's most repressive regimes. Facing mounting criticism of their presence in Myanmar, Levi Strauss, Macy's, Liz Claiborne, and Eddie Bauer all pulled their operations out of the country, as did oil giants Texaco and Amoco.

All these firms left for purely commercial reasons. The spotlight had made its way to their bottom line.

Still, American companies whose business models are driven by brand and reputation do not always have adequate leverage to change the labor practices of their suppliers. In some instances, the only way to solve this problem is through collective action. If all firms — or at least a good majority of the larger ones — adhere to the same standard, none is penalized. Collective action can thus force a race to the top rather than the oft-noted race to the bottom.

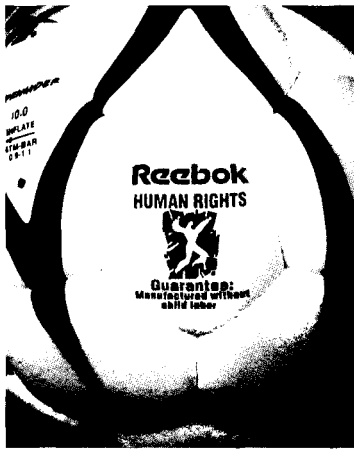
What changes the direction of this race is the combined force of codes and the commercial success of companies that adopt and rigorously implement labor standards enforcement programs. And as more companies adhere, the easier it is for even the low-profile or sluggish to join.

Reebok, for instance, used the collective approach in Pakistan. Before proceeding with its child-labor-free campaign, the company obtained approval and support from both the World Federation of the Sporting Goods Industry and the U.S.-based Sporting Goods Manufacturers Association. When Reebok refused to sell balls made with child labor, so did all of its competitors. None, then, were left at a commercial disadvantage.

Traditionally, human rights advocates and business leaders have seen themselves standing on opposite sides of a vast divide, with the advocates trumpeting the possible evils of foreign direct investment and executives claiming that business cannot concern itself with issues beyond its own purview. In the contemporary global economy, however, these two sides may coincide as often as they clash.

Improved human rights are better in many cases for business, and more business, of certain types, may accelerate the pursuit of human rights. Both sides, moreover, have strong interests in the rule of law and in the promulgation of open markets and economic freedom. Both sides support freedom of the press and the protection of free speech. Thus the challenge for both business leaders and human rights advocates is to figure out how to manage the fragile relationship that binds them. Carving out a concerted agenda may ultimately prove more fruitful than battling solely in support of either human rights or untrammeled foreign investment. ■

RESPONSIBLE TAGGING: Labels demonstrating a company's responsible behavior toward the environment or human rights do affect consumer's buying habits. Left: A furniture company uses wood from sustainably-harvested forests. Below: Reebok's guarantee that its soccer ball is not made with child labor.



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Workers and the environment: TRADING UP

TRADE, ENVIRONMENT, AND LABOR ARE THE IRON TRIANGLE OF today's distorted globalization debate. Locked in a conflict whose persistence serves no one, these interests have also restrained progress on their own agendas.

To break the lock, supporters of globalization could begin by reframing the debate. We must reject the false choices between increased trade and a healthier environment on the one hand, and between trade and better working conditions on the other. We *can* achieve the closely intertwined goals of a globalizing economy and a cleaner world; we *can* have robust growth and labor protections. A centrist consensus for globalization begins with the belief that these goals can be mutually supportive.

But first we must delink environmentalists and labor, two differing sets of interests now often melded in an unholy alliance and used by opponents of globalization as a blunt instrument. In fact, environmentalists and labor unions who want their issues included in trade negotiations are calling for very different policies. Environmentalists essentially want to limit the power of the World Trade Organization (WTO), while labor unions want to expand it.

Environmentalists are primarily concerned about the WTO's ability to undermine domestic laws and regulations that protect the environment but have an impact on trade. They do not want a trade-based institution with no environmental or scientific expertise making decisions about the environment.

Labor unions, by contrast, want to include enforceable labor standards in trade agreements (and in the WTO's body of law), and they want the right to limit trade with those countries that do not meet certain labor standards.

Environmentalists and labor unions are thus united in their dislike of the status quo but differ so widely in their preferred solutions that any discussion of these issues should be separated. We tackle these questions in the two essays that follow.

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GLOBAPHOBIA: Fears of environmental degradation and insufficient labor protections through world trade brought together an unlikely assortment of demonstrators at the WTO meeting in Seattle last year.

Clean trade

Protecting the environment doesn't mean stifling trade, it means setting rules.

by Jenny Bates and Debra S. Knopman

The trade vs. environment debate in the aftermath of Seattle is not so much about the possible deleterious effects of trade on the environment. Rather, it is primarily about rule-setting at the international level. What are the rules and who sets them? Who should enforce them and through which mechanisms?

In fact, there is no *a priori* reason why environmentalists should be anti-trade. Countries with higher average per capita incomes generally tend to have cleaner environments along with increased consumption. Without increased trade and economic growth, it is hard to see how countries would have the desire or the ability to tackle environmental problems. Poverty is a major cause of environmental degradation, such as deforestation. Similarly, new and more expensive technology is also often less polluting. As nations become richer and their middle class expands, so do demands for tougher environmental standards and regulations. Indeed, the green movement and green consumerism in the developed world only emerged with the broadening and deepening of the middle class in the postwar era.

At the same time, unfettered free markets alone will not necessarily guarantee high levels of economic growth accompanied by a clean environment. Many years of economic research and analysis in the area of environmental policy have identified key market failures: instances where free markets alone do not produce the optimal allocation of resources. This happens when the full social costs of car manufacturing that pollutes a river or energy consumption that degrades the air are not included in the costs of production. Unless some way can be found to link the pollution abatement costs to the production process, such products will be overproduced.

Similar problems occur with the global commons — things that we all hold in common, like oceans and the air. We all benefit from clean air and biodiversity but no one group, society, or country can alone be responsible for the protection of a species and a clean atmosphere. Hence, public goods such as fisheries tend to be overused as the environmental cost is not directly incurred by those doing the fishing but is rather spread around the globe.

Where environmental problems cross national boundaries, solving

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"The WTO does not and cannot dictate national government policy. Sovereign nations choose to become members of the WTO and to play by its rules. If a country wishes to pursue a policy that does not fit within WTO rules, it is free to do so, but must then pay compensation."

the problem usually requires an international response. It is tempting in such cases to look to international levers such as trade and foreign investment. However, tariffs and other trade restrictions are indirect interventions and tend to be ineffective. Tariffs on forest products, for example, don't stop excessive logging and deforestation, as we have seen in Indonesia.

Rather, the problem is insufficient domestic regulation. Imposing trade sanctions on goods from poor countries with lax environmental standards simply lowers their economic growth and does nothing to counter the poverty that may well be contributing to the environmental problem. Instead, we need strong domestic regulation accompanied by multilateral environmental agreements (MEAs) that are both targeted and enforceable. Where necessary, we should also provide technical assistance to help the poorest nations meet the higher standards. An MEA, for example, could set out and monitor sustainable forestry practices. In addition, the WTO's Committee on Trade and Environment could shine a light on egregious violators. Voluntary international standard-setting organizations could develop guidelines for labeling according to compliance with sustainable forestry practices.

WTO — Myth and Reality

To build a rules-based international trading system, member nations need to build and support institutions to develop, interpret, amend, and enforce those rules. The World Trade Organization was born of this need, rising out of the post-World War II General Agreement on Tariffs and Trade. It is not without faults — for example, the WTO's dispute settlement process relies on a narrow group of experts to make rulings, is underfunded, and makes its decisions without input from many interested parties. Yet because it remained relatively obscure from its creation in 1995 until bursting into international headlines during the 1999 dustup in Seattle, misinformation abounds about the degree and scope of WTO authority. Some protagonists portray the WTO as a club for big business. Others see it as a creeping "global government," slowly usurping the power of national governments by imposing standards and regulations well beyond its initial charge to set rules for global commerce.

The reality is much less dramatic than either of these caricatures. For example, the founding charter of the WTO does formally address the intersection of trade and the environment. The opening paragraph states that parties to the WTO should "allow for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking to both protect and preserve the environment." The rules enshrined in the WTO also allow countries to impose trade measures "necessary to protect human, animal, or plant life or health" or "relating to the conservation of natural resources."

On the other hand, the WTO does not and cannot dictate national government policy. Rather, it is a system of rules designed to ensure open, fair, and undistorted commerce at the international level. Sovereign nations choose to become members of the WTO and to play by its rules. So far, 135 countries have joined, and many others are waiting in line. If a country wishes to pursue a policy that does not fit within WTO rules, it is free to do so, but must then pay "compensation" (usually in the form of higher trade barriers from other members).

WTO Decisions Can Affect the Environment

The most misunderstood and controversial aspect of the WTO's activity in the area of the environment is the dispute settlement process. Environmental groups seize upon various high-profile WTO rulings and, often without explaining details, hold them up as examples of anti-green outcomes when, in fact, decisions were made on technical and legal grounds that have little to do with environmental policy.

One of the best known of these lightning rods is the issue of sea turtles. Five Asian nations challenged a U.S. law designed to protect sea turtles from certain harmful fishing practices. This law banned the importation of shrimp from countries that did not require the use of turtle-excluder devices by their fishing industry. The WTO dispute

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panel ruled in favor of the Asian countries, but — and here is the key — not because it disapproved of U.S. attempts to protect sea turtles. The United States lost the case because it had discriminated among members of the WTO, granting preferential treatment to Latin American and Caribbean nations, but not to Asian countries. This violated one of the basic tenets of WTO law (most-favored-nation status) and led to the ruling against the United States. Though this decision had nothing to do with the desirability of saving sea turtles, environmentalists in Seattle paraded as sea turtles and other oceanic creatures, generating intense media coverage and international sympathy while distorting the facts of the case.

Tackling the Big Picture Disputes

Several core conflicts in the trade-environment debate reflect the fundamentally different premises on which trade policy experts and environmentalists base their analyses. For example, there is a fundamental conflict on the issue of "product and process standards." WTO rules are based on a view of the world in which the location of production is the key distinguishing feature of a product, like whether a car is produced in the United States or Mexico. Under WTO rules, it is illegal to treat products produced overseas differently from those produced domestically, once the item has entered the domestic market. These rules are quite clearly designed to prevent covert protectionism within domestic economies.

From an environmentalist's viewpoint, however, the key defining feature of a product is not where it is made but how it is produced. Thus, environmentalists may object to Mexican cars not because they are made in Mexico per se but because they face different regulations and pollute the environment more significantly in their production. They thus want to restrict the importation of Mexican cars for environmental rather than purely protectionist reasons.

Finding a solution to these differences is not going to be easy. Yet there are solutions that address the environmental concerns without resorting to trade sanctions. For example, many ideas have been proposed to harness the market and use the power of green consumerism through eco-labeling and information disclosure to encourage best practices by multinational companies. Where the problem is based more significantly on a lack of scientific data and certainty, as it is with biotechnology, it may be useful to encourage international research and discussion, such as an independent working group on biotechnology. Another potentially fruitful area for common ground is the elimination of subsidies, particularly in forestry, agriculture, and fishing. Some subsidies promote environmentally harmful practices, are inefficient, and can be discriminatory between WTO members.

Dealing with every trade and environmental issue at the WTO would undermine the legitimacy of the trade body and support for free trade more generally. Free traders should therefore address these legitimate issues in ways that extend beyond the WTO dispute settlement process if we are to move forward with further trade and investment liberalization.

Clarifying the Relationship Between the WTO and Multilateral Environmental Agreements

We should negotiate environmental pacts to solve environmental problems and use trade rules to solve trade disputes. The few actual cases of WTO's entry into environmental disputes underscore the need for further development of MEAs. Several steps could be taken to improve the coherence of international rule-making as it bears on the environment.

The WTO should defer to multilateral environmental agreements under defined and constrained conditions. Environmentalists are protective of their work on these agreements and do not want hard-won deals undermined by an outside organization such as the WTO. So far, there have not been any conflicts between international environmental treaties and trade, and there is little potential for future problems. And MEAs do contain their own enforcement mechanisms, including in some cases limited trade measures. In addition,

SAVING SEA TURTLES: Everyone favors rescuing turtles from fishing nets. But anti-WTO environmentalists have made the endangered reptiles their mascot because of a complex case in which the United States was faulted by the WTO for preferential trade treatment of some nations in relation to fishing rules. While it appeared that the WTO was indifferent to the turtles' fate, in reality the ruling was based on the principle of equal treatment for all trading partners.

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U.S. ratification of these pacts involves an informal assessment of their impact on trade. However, it is important to clarify that the WTO would uphold the environmental pact in the event of a dispute. This will re-emphasize that global environmental problems need to be addressed through cooperative, negotiated treaties rather than through trade controls.

For transboundary environmental problems not yet covered by an international agreement, the United States ought to advocate the creation of a specific treaty whose terms are enforceable through targeted sanctions or other penalties, rather than relying on general trade measures to address the problem. For example, the threat of invasive species — non-native species, often brought into a region by ships or airplanes bearing imports, that overwhelm the native species — is growing rapidly. Zebra mussels carried in ballast water of foreign freighters have infested the Great Lakes and clogged water intakes throughout the region. But trade sanctions are not the proper answer. An international pact on controlling these intruders, based on environmental and health regulations, is more appropriate and a better long-term solution.

Similarly, trading partners with common borders should negotiate parallel environmental agreements in conjunction with trade pacts. This collaboration would help avoid disputes based on environmental issues. The Commission for Environmental Cooperation set up under the North American Free Trade Agreement is not perfect, but it could provide a good structural and procedural model.

"In today's global economy, trade and the environment are intertwined. Fortunately, the ultimate aim of both trade and environmental policy is the same: an increased standard and quality of life. The challenge is to insure a cleaner environment even as trade inevitably expands."

WTO Needs Several Procedural Reforms

The WTO's members could take several steps to improve its credibility on environmental issues that are much less controversial than including specific environmental standards in its body of trade law. The most obvious improvement would be for the WTO to make its decisionmaking processes more transparent, particularly in dispute resolution. A second change is simply to encourage greater cooperation between the WTO and other relevant international bodies such as the United Nations Environment Programme (UNEP). WTO representatives should be formal participants in the drafting sessions for any new MEAs to ensure that environmental legislation is compatible with WTO principles and rules. Similarly, representatives from international environmental organizations should advise multilateral trade negotiations.

Further, WTO dispute panels should resist pressure to settle environmental disputes. Where a dispute brought to the WTO is primarily concerned with an environmental regulation, the WTO should appoint a high-level conciliator, perhaps in conjunction with UNEP or another relevant environmental body, to encourage resolution of both aspects of the dispute. Finally, WTO members should help poorer countries build capacity through technical assistance and training.

Domestic Reforms Are Also Needed

One of the biggest complaints from the environmental community is the closed nature of trade discussions in the United States. In nearly every other sphere of public policy, wide-ranging consultations with stakeholders during the policy development process are commonplace. National-level policymaking on trade has largely escaped these requirements. Consultations with a wide range of stakeholders should occur prior to the congressional debate on giving "fast track" negotiating authority to the President and whenever the administration negotiates specific trade agreements. The process should front-load environmental consultations and information gathering so that the administration integrates these concerns into the trade negotiations from the beginning.

Conclusion

In today's global economy, trade and the environment are intertwined. Fortunately, the ultimate aim of both trade and environmental policy is the same: an increased standard and quality of life. The challenge is to insure a cleaner environment even as trade inevitably expands. Both goals can be achieved if we reject ideology and fear as strategies, but choose instead the constructive solutions that are well within our reach. ■

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What Works/Hoisery technology center

High performance for global competition / by John B. Justice

Last March, Dan St. Louis was excited about the upcoming international hosiery show in Charlotte, a short drive from the Hosiery Technology Center (HTC) in Hickory, N.C. At the Charlotte show, HTC Director St. Louis and his staff of eight planned to unveil a newly developed machine to solve a tough problem in "boarding" socks, the manufacturing step that gives socks their shape and is traditionally done by hand.

St. Louis, who has years of experience in the hosiery industry, hoped that HTC's three years of developmental work would pay off if a manufacturer at the April show bought his machine and put it into production. It would thus meet one of the center's prime objectives, which is to help manufacturers cut costs and serve what St. Louis calls "our short and sweet and to-the-point mission statement: to help the North Carolina hosiery industry compete in the global economy."

Automating the boarding process is a good example of the Hosiery Technology Center's work at the center of a public-private partnership designed to buck the economic tide that has battered U.S. hosiery and textiles for years. It is characteristic of the center's collaborative approach that the center drew on the expertise not only of its staff and of industry but of textile engineering students from North Carolina State University as well.

Working with an annual operating budget of about $350,000, the center is advancing innovative initiatives that include:

Legsource.com, an electronic bulletin board to help hosiery plants do business with state and federal governments and let hosiery buyers locate manufacturers that can supply needed goods.

Scientific testing standards to maintain quality for buyers and cut costs for manufacturers. Presently, independent labs test fit, abrasion, and color fastness, but each lab is on its own and there is no uniformity of standards, methodology, and results. The HTC has developed tests to assess toxic elements in dyes and yarns; it is on the verge of unveiling its scientifically valid testing for hosiery fit and is working on a way to develop tests for abrasion.

New ways to add value to North Carolina hosiery goods, such as environmental labels claiming that North Carolina hosiery is free of formaldehyde, DDT, and other chemicals used in some countries but banned in the United States.

SMART SOCKS: New hosiery manufacturing technologies, such as computerized knitting machine programs developed at this center in North Carolina, are helping to keep American textile makers competitive.

North Carolina hosiery plants produce 60 percent of all hosiery made in the United States, and for 40 years, North Carolina has produced more hosiery than all the other states combined. Some 38,000 people work in North Carolina hosiery mills, most of which employ fewer than 100 workers.

In 1995, annual sales of North Carolina hosiery were running about $2.86 billion. Even so, the state's manufacturers saw trouble coming — increasing competition from foreign manufacturers, aging technology, increasing government regulation, and changing labor demographics.

These pressures spurred hosiery manufacturers to get together to plan a common strategy. A series of meetings generated a 1995 survival document for the industry: "Preserving Hosiery Manufacturing in North Carolina." Players included regional and national hosiery industry groups, with funding from the North Carolina Alliance for Competitive Technologies. "My job is to implement that plan," says St. Louis. "We knew we have to change to preserve hosiery and grow the hosiery industry."

Along with Catawba Valley Community College, which houses HTC, the center provides skills training, GED and other educational services, and teaches "Basic English for Hosiery" in Spanish, Vietnamese, and Hmong for the growing number of workers who are Hispanic or Asian.

But HTC goes beyond the usual education and training: It also provides the industry R&D services, creates marketing tools such as Legsource.com that will help hosiery stay competitive on a nationwide basis, and thinks creatively about new products such as filters or covers used in cleaning up oil spills. Moreover, it does industry problem-solving, then tries to implement the solutions throughout the industry. And because the industry is composed largely of small firms that don't have the expertise to do this work on their own, a collaborative partnership like HTC is necessary.

"Networking is more important to us than anything else in doing these things," says St. Louis. "I can't do anything by myself, and I don't care where the ideas come from. If a Mars guy comes in with an idea to help hosiery compete, so be it!"

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Lifting labor

Trade sanctions are blunt instruments that usually fail to improve labor conditions in developing nations. The surest route to higher living standards is through trade-assisted economic growth, combined with more subtle policy tools.

by Jenny Bates

The street protests during the ministerial meeting of the World Trade Organization (WTO) in Seattle in late November drew the world's attention to the "new alliance" of labor and liberal interest groups opposed to trade expansion and globalization.

To be sure, these groups often have laudable aims, such as protecting workers and environment. Yet the developing countries they supposedly want to help oppose them on almost every count.

Take, for instance, the debate over whether to condition trade expansion upon improvements in worker rights. American labor, environmental, religious, and other groups want the WTO to allow moves by the United States to restrict trade with nations possessing weak labor standards. Developing countries oppose the concept so vehemently that they don't even want the WTO to discuss the matter.

That's not to say that all developing countries oppose stronger labor standards. Rather, they oppose anti-globalization activists' preferred means of raising such standards. They fear that developed nations will use the labor-standards issue as a convenient excuse to close their markets. And that would only worsen economic matters and workplace conditions in developing nations.

Developing nations cannot leapfrog traditional stages of economic development and adopt Western labor practices overnight. As was the case for Western nations, the surest route to higher living standards for them is through economic growth fueled partially by trade. History shows that trade sanctions are blunt instruments that often fail to change, and that sometimes even reinforce, the behavior of targeted nations. They should be reserved only for extreme situations when we can do little more than express our outrage about conditions overseas.

The United States should adopt a more subtle, multifaceted approach to improving labor standards in developing nations. It should be organized around the following principles:

Promote economic growth and development. This is the surest way to improve working conditions and raise standards of living in poor, underdeveloped countries.

Set core labor standards multilaterally. The International Labor Organization (ILO), a United Nations agency, is the proper forum for discussing, setting, and monitoring global labor standards.

Harness market forces to promote change. Rather than demand new trade barriers that retard economic growth and living standards, activists, and others concerned about labor practices abroad should use the power of consumer choice to encourage positive

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MEXICAN AUTO WORKER: Increased economic integration yields many direct benefits to foreign workers and raises labor standards overseas.

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change. They can do so, for instance, by boycotting firms that fail to meet core labor standards and patronizing those that produce "socially responsible" goods and services.

Highlight chronic abusers and target enforcement actions. To make informed decisions, policymakers and consumers need specific examples of labor rights abuses in developing nations, not simply blanket claims against whole countries or regions. Armed with detailed information, policymakers and consumers can target their actions more effectively.

Provide resources and assistance to developing countries. Developed nations must back up demands for improved labor standards and conditions with grants and loans, technical assistance, and other forms of development aid.

"Some trade skeptics want the United States to pressure other nations to adopt our labor standards in exchange for access to our markets. Not surprisingly, many developing nations flatly reject such unilateral attempts to impose American views and norms upon them."

Defining Core Labor Standards

The term "labor standards" loosely refers to a range of employment laws, rules, and practices including the right to form trade unions and practice collective bargaining; prohibitions on child, forced, and slave labor; and measures pertaining to wages, conditions of employment, and the like. Players in the trade debate, however, often blur important differences among such standards, for example those between:

Core and developmental standards. Core standards encompass certain universal rights (e.g., the right to form unions) and liberties (e.g., freedom from coerced labor). Developmental standards, in contrast, encompass rights (e.g., minimum wages and overtime pay) that vary from nation to nation on the basis of national wealth, productivity, and other factors. The imposition of a global minimum wage, as some U.S. trade skeptics advocate, would hinder the ability of many developing countries to provide their citizens with any jobs, let alone safe and stable ones.

Unilaterally imposed and multilaterally agreed-upon standards. Some U.S. trade skeptics want the United States to pressure other nations to adopt our developmental labor standards in exchange for access to our markets. (For example, members of the group United Students Against Sweatshops pressure their universities to sever ties with businesses that do not pay their employees a "dignified living wage"; that exceed a 48-hour workweek; that do not offer vacation leave or overtime pay at a rate above the regular wage; and that fail to meet or exceed U.S. workplace health and safety regulations.) Not surprisingly, many developing nations flatly reject such unilateral attempts to impose American views and norms upon them, just as Americans would reject attempts to impose the values of the European welfare state upon the United States. Multilaterally agreed-upon standards, on the other hand, are internationally designed and reflect an international consensus on core labor standards and practices. The most well-known are those adopted by the ILO in its numerous conventions. These ILO conventions reflect the views of representatives from government, business, and labor in 174 nations and are a more legitimate basis for a discussion of the linkage between trade expansion and labor standards.

The Trouble With Sanctions

The use of trade sanctions to punish countries that do not adhere to core labor standards is at the center of the U.S. debate over trade expansion and globalization. In a recent policy manifesto, for example, the AFL-CIO calls on the WTO to "ensure that governments at all levels can continue to protect human and labor rights by withdrawing benefits from governments that fail to guarantee these rights." In other words, the labor federation wants the WTO to amend its rules so that members may raise trade barriers against nations that do not protect labor rights.

There are several problems with this approach. Trade sanctions, and in particular barriers to imports, impose high costs on both the United States and targeted nations. Sanctions retard economic growth and exacerbate poverty in exporting nations, hindering the very development they so desperately need. Sanctions reduce choice and increase prices not only for U.S. consumers but for U.S. businesses as well, reducing their competitiveness. Even well-intentioned

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Trade is the solution, not the problem

Open economies raise living standards for workers

The common case made against trade and globalization in the area of labor standards is based on two related arguments. First, groups such as the AFL-CIO argue that increased trade and investment will result in lower standards both here and overseas as countries engage in a "race to the bottom" in the global economy. Second, these groups argue that it is unfair (and potentially damaging) for American workers to compete with low-paid workers in poor countries, many of whom work in unregulated environments with lax standards. Both of these arguments are false, and they portray trade as the problem when it is really part of the solution.

First, there is no compelling evidence that countries that have opened their economies to international trade and investment have lowered their labor standards. A recent OECD study of 44 developing countries that had significantly liberalized trade between 1980 and 1994 concluded "there was notably no case where the trade reforms were followed by a worsening of association rights." Indeed, freedom-of-association rights improved in 32 of the countries studied, albeit with some of the labor rights improvements coming before trade liberalization, some during, and some after. This reflects a result found in other studies — namely, that there is a small, but positive, correlation between openness to trade and higher labor standards. It seems that the two often go hand-in-hand as countries engage in a broader process of reform, although the direction of causation is often unclear. More important, there is well-documented and strong correlation between income levels and high labor standards: Rich countries, such as the OECD members, tend to have both high labor standards and high levels of income.

Second, the main cause of lower wages in developing countries is not a specific ploy by their workers to undercut American wages or unfair competition from unregulated firms. Rather, lower wages reflect the lower levels of productivity found in developing countries. For example, while manufacturing wages in the United States are significantly higher than those in South Korea, American output per worker is double that of Korean workers. Hence, American workers receive higher wages and benefit from better working conditions because their higher wage costs are more than offset by their higher productivity. They work in highly productive factories and offices, with the best equipment and with high levels of education. In contrast, developing countries have much lower levels of productivity and desperately need access to new technologies, new ideas, and new markets.

FACTORY WORKER IN CHINA: Foreign-invested enterprises raise standards for overseas workers.

Finally, increased economic integration yields many direct benefits to foreign workers and raises labor standards overseas. For example, a recent, detailed study of foreign companies operating in China by Daniel H. Rosen of the Institute for International Economics noted that "the relatively high salary and benefits, intensive training efforts, home financing experiments, and corporate culture of many (especially Western) foreign-invested enterprises have a virtuous impact on workers in China. ... Indeed, probably only the withdrawal of foreign participants from China's marketplace could reverse the current positive trend." Similarly, the Business Roundtable recently produced a catalogue of examples of the wide-ranging benefits received by foreign employees of U.S. multinational firms operating overseas. These include higher wages, a wide range of supplemental benefits (such as child care), and significant investments in education and training.

The debate surrounding trade and labor standards is essentially a development question. That is, how do we ensure that developing countries achieve the economic growth necessary (though possibly not sufficient) to raise the standard of living for their populations? The approach adopted by groups such as the AFL-CIO ultimately implies that rich countries should limit (and even eliminate) trade with, and investment in, every country with lax labor standards. This would cut off U.S. trade with the very countries that most need it to expand their economies — the poorer developing countries. Such a policy is clearly misguided, and most developing countries are opposed to this approach. Indeed, the countries of sub-Saharan Africa are currently lining up to increase trade and investment ties with the United States, through the Africa trade bill being considered by Congress. The United States should encourage policies to increase trade and investment with the world's poorest countries (along with other pro-development policies), as this will be a key factor in improving conditions for their workers.

—Jenny Bates

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"Even well-intentioned sanctions are often manipulated by domestic industries that don't want foreign competition. And trade barriers only affect exporting industries. They have no impact on informal sectors such as subsistence agriculture, which often have the worst cases of labor rights abuses."

sanctions are likely to be manipulated by domestic industries whose only interest is to hamstring foreign competitors.

A second problem with sanctions is that they rarely achieve the desired outcome — in this case improvements in labor standards overseas. Trade barriers only affect industries engaged in exporting. They have no impact on non-traded sectors, and informal sectors such as subsistence agriculture, which often have the worst cases of labor rights abuses.

There are also significant barriers to reforming WTO rules to allow members to sanction countries accused of labor abuses. Given the current strong opposition from developing countries, it is difficult to envisage such a rule change ever gaining the necessary two-thirds support. Indeed, one of the key lessons from the Seattle WTO ministerial meeting is that developing countries are playing a more active role in international trade policy, and they can block policies that run contrary to their interests.

Even if the WTO modified its rules and permitted the United States to bring a case against a country with lax core labor standards, it would be very difficult to quantify the scope of the injury and determine a just remedy. Would the WTO allow the United States to ban all imports from the country concerned, or just a fraction? If the United States wanted to increase tariffs, by how much would it be authorized to do so?

Finally, the WTO dispute-settlement process only pertains to actions by one nation against another. In cases of egregious labor rights abuses, coordinated, multilateral action against the offending country is likely to be more effective than action by a single state. But such coordinated action cannot be organized through current WTO procedures.

In sum, while it may seem easy to restrict trade with a trading partner to force it to improve its labor standards, such action is likely to be both ineffective and counterproductive. Sanctions should, at most, be used as a last resort. Policymakers should recognize that the main outcome may simply be an expression of the United States' dissatisfaction with a certain practice, not its disappearance.

Alternative Policy Tools

Unions, interest groups, and others concerned about lax labor standards overseas should reject trade restrictions as the primary means for achieving their end. They should concentrate instead on promoting economic growth in developing countries through trade, investment, and other development policies; strengthening and targeting the ILO's work to improve adherence to its core labor standards, particularly in conjunction with the WTO; and developing non-government mechanisms such as partnership-based codes of conduct and social labeling schemes.

Strengthening and Reforming the ILO

While ILO reports provide a wealth of information about labor standards in its member countries, they are not particularly effective tools. A more useful approach would be a simple annual scorecard that ranks all ILO members on the basis of their adherence to core labor standards over time. The scorecard should be easily understandable by the layman and accompanied by a media and marketing strategy to promote widespread attention.

Under current ILO rules, little action can be taken against a member that violates core labor standards universally and egregiously. The ILO should create a new legal procedure under which persistent violators of its core labor standards can be suspended and even expelled. Actions under the new process should be widely publicized to embarrass the affected governments and encourage businesses to rethink their investments.

Forging Strong Links Between the ILO and WTO

The WTO already recognizes the ILO as the relevant body to set international labor standards. Yet little cooperation occurs in practice.

Currently, the WTO issues "trade policy reviews" for each member nation at least once every four years. In the future, these reviews should include a section written by the ILO describing a country's ratification and enforcement of the ILO's core labor standards. Such reports would shine more light on labor rights abuses by WTO members.

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The ILO and WTO also should create a joint working group on trade and labor conditions. This group should consider ways to make the ILO's and WTO's work complementary and reinforcing, including new ways to leverage information about workers' rights abuses and noncompliance with ILO conventions. The group should also conduct research on trade and labor questions, such as the impact of foreign investment on labor conditions. In line with the European Union's proposal in Seattle, this group should explicitly rule out setting core labor standards and promoting trade sanctions to enforce labor standards overseas.

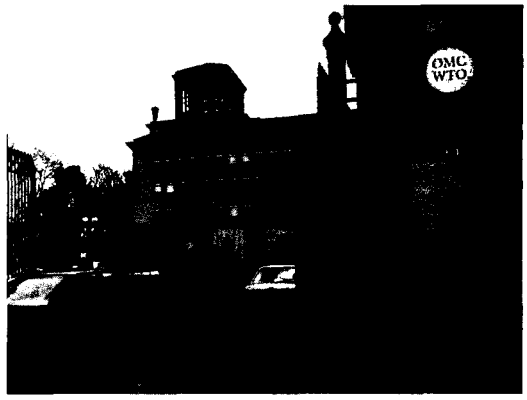
The WTO should recognize and promote core ILO standards, such as those regarding products made with forced labor. Under current WTO rules, member nations can restrict imports from other WTO members made with prison labor. The WTO should formally state that members can also restrict imports made with forced labor. This step would allow members to apply trade sanctions against specific firms and industries found guilty of exploiting workers in this way.

Paying the Price for Improved Enforcement

Lax enforcement of core labor standards is often a problem of insufficient resources and government inability to monitor and enforce existing laws. Simply demanding higher labor standards will not yield positive results. Developed countries need to support their calls for tougher standards with significant resources, both unilaterally and multilaterally. In particular, the ILO, in conjunction with the World Bank, should increase its assistance to developing countries to improve monitoring and enforcement of labor laws.

Trade Preferences — a Carrot for Good Behavior

Rather than restrict trade with countries with lax labor standards, the United States should open its market more broadly to countries with good labor rights records. For instance, it should expand on the Generalized System of Preferences (GSP), under which developing countries that meet certain conditions get preferential access to the U.S. market. By encouraging trade expansion, this approach would support economic growth and development in affected countries.



CAUGHT IN THE MUDDLE: At WTO headquarters in Geneva (above), an embattled bureaucracy wrestles with the competing demands of developed and developing countries, environmentalists, and labor organizations.

The GSP program expired in 1993. Since then, Congress has renewed it on an annual or biannual basis, often after letting the program lapse for several months. It is hard for developing countries to believe that the United States is serious about promoting their economic growth (and higher labor standards) when it annually disrupts their access to the U.S. market. Expanding and extending the GSP program would be an important step toward encouraging economic development in countries that respect core labor standards.

Conclusion

Discussion of international trade and labor standards has been and is likely to remain highly controversial. While it is tempting to promote the use of trade restrictions to force countries to raise labor standards, there is no magic bullet solution. Indeed, sanctions are likely to be both ineffective in achieving higher labor standards overseas and counterproductive (they may be captured by domestic interests and act to retard economic growth).

We need a more nuanced and multifaceted approach that comes largely from outside the traditional trade policy arena. It should have at least three components — promotion of economic growth in developing countries through trade, investment, and other development policies; a strengthening and targeting of the ILO's work to improve adherence to its core standards, particularly in conjunction with the WTO; and non-government mechanisms such as partnership-based codes of conduct and social labeling schemes.

None of these tools will alone solve the problem of labor rights abuses. But together they will help ensure that the benefits of the global economy are as widely shared as possible. ■

"The WTO should recognize and promote core labor standards such as prohibitions against forced labor. And developed countries need to support their calls for tougher standards with significant resources for enforcement."

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[A Special Report]

Promote trade *and* help workers adapt

Americans balance their support for trade with concerns for workers, the environment, and human rights.

by Steven Kull

The issues raised last November at the World Trade Organization ministerial meeting in Seattle, and hotly debated in Washington this spring, are far from resolved. Shocked that thousands of Americans would pour into the streets over seemingly obscure trade issues, members of Congress are warily eyeing their constituents, wondering if anti-trade demonstrators are representative of the general population. Is there now a fundamental divide in society between those who want to see the process of globalization continue and those who want to put on the brakes?

Some answers may be provided by a recent study of American public attitudes on globalization conducted by the Program on International Policy Attitudes (PIPA) of the University of Maryland. The study included focus groups conducted around the country, a comprehensive review of all publicly available polling, and a new poll of 1,826 Americans conducted Oct. 21-29, 1999.

What the study found is that there is an emerging consensus in the public, but it is not on one or the other side of the Seattle barricades. On one hand Americans do resonate with the concerns of the demonstrators. They do have concerns about increased trade threatening American jobs, about sweatshop conditions overseas, about U.S. companies moving to foreign countries to avoid environmental regulations, and about a mercantilist tendency to trade with other countries irrespective of their human rights records. But where the public diverges from the demonstrators is that only a small minority want to stop the growth of trade. In principle a substantial majority favor trade, though they have many concerns and reservations about how it has developed. But, unlike many of the demonstrators, what the majority of the public wants is to see these various concerns addressed in the context of the trade process.

This puts the public at loggerheads with the WTO. The WTO has emphasized that the growth of trade should not be bogged down by trying to bring other concerns into the trade process.

A good analogy is to think of trade as like a train. The goal of the WTO is to accelerate the train, and thus it wants to keep the train light. The demonstrators, meanwhile, tried to throw themselves in front of the train to stop it. The public's goal, though, is to load up the train with other concerns for labor, the environment, and human rights. If this has the effect of slowing down the train, the public says, so be it.

This appears to be why there is not majority support for fast track — it implies letting the train move down the track unburdened by any concerns other than trade.

But the majority does support the expansion

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WORLD TRADE GIANT: Though Boeing workers joined other union members in pro-labor demonstrations in Seattle, they are at the forefront of globalization, building one of America's supreme export products, jetliners. Without free trade, Boeing's market would shrink dramatically.

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of trade in principle. For example, asked about the pace of lowering trade barriers, only 30 percent said it was going too fast, while 62 percent said it was going the right speed or too slowly. Sixty-four percent said that "in general, if another country is willing to lower its barriers to products from the U.S. if we will lower our barriers to their products," the United States should agree to do so. This support is a bit higher among those with higher education and income, and to a slight extent, among those who are younger, Democrats, male, and members of minorities. But there is no demographic group among which a majority opposes the growth of trade in principle.

"There is no demographic group among which a majority opposes the growth of trade in principle."

Over the years, other polls have also found support for trade liberalization in principle. In July 1994, *Times* Mirror found 62 percent support for "free trade agreements," and in August 1996 a *Washington Post*/Kaiser/Harvard poll found 55 percent support.

But these upbeat numbers should not be mistaken for a relatively sanguine public. Americans show low levels of confidence that the mandarins of trade are watching out for American workers and the environment. In the PIPA poll, asked about "U.S. government officials who are making decisions about U.S. international trade policy," 72 percent said that they give too little consideration to working Americans, while 60 percent said they give too little attention to the impact of trade on the environment. However, only small minorities said U.S. policymakers give too little attention to multinational corporations and American business. Also, 65 percent agreed that "when the World Trade Organization makes decisions, it tends to think about what's best for business, but not about what's best for the world as a whole."

Some have tried to convince Americans that they should not be so concerned about the relatively small numbers of Americans who lose their jobs, emphasizing that trade creates an aggregate gain to the whole American economy. But this is not enough to persuade most Americans. They do not feel that they have the right to expect a minority of American workers to lose their jobs so that the majority can pay marginally lower prices for their consumer products. When poll questions pose a tradeoff between lower prices for the many and job security for the few, job security usually wins.

So what do Americans want to do for American workers? If there is no alternative, a solid majority is willing to accept trade barriers to protect jobs. But that is not their preferred approach. What they would most like to see is greater efforts by the government to help workers directly. Presented with two statements, 66 percent agreed with the one that said, "The federal government should invest more in worker retraining and education to help workers adapt to changes in the economy." Just 31 percent agreed that "such efforts just create big government programs that do not work very well."

Particularly striking, if the government does provide such programs, opposition to free trade drops to a very small minority. Asked to choose between three statements, 66 percent chose the one that said, "I favor free trade, and I believe that it is necessary for the government to have programs to help workers who lose their jobs." Another 18 percent said they also favored free trade but opposed the government programs. Thus, 84 percent favored free trade in some form. Only 14 percent chose the option that said, "I do not favor free trade." In another question, 87 percent agreed with the statement, *"I would favor more free trade, if I was confident that we were making major efforts to educate and retrain Americans to be competitive in the global economy."*

Americans also want to see efforts to raise international labor standards by incorporating standards into trade agreements. A near unanimous 93 percent supported the idea that "countries that are part of international trade agreements should be required to maintain minimum standards for working conditions." As a general principle, 78 percent said the WTO "should consider issues like labor standards and the environment when it makes decisions on trade," rejecting the argument, typical of the WTO, that "the WTO should not consider these issues because its job is to

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deal only with trade, and trying to bring in these other concerns will interfere with the growth of trade."

Americans' desire to load up the trade train with these various concerns is derived from several sources. First, there is the self-interested concern that without such standards developing countries will be able to undercut U.S. production costs by cutting corners with standards for the environment and the health and safety of workers.

But it is also driven by moral concerns. Seventy-four percent said that "if people in other countries are making products that we use, this creates a moral obligation for us to make efforts to ensure that they do not have to work in harsh or unsafe conditions," while just 23 percent endorsed the view that "it is not for us to judge what the working conditions should be in another country." Seventy-six percent said they would be willing to pay 25 percent more for a garment to make sure it was not made in sweatshop conditions. Seventy-three percent said that "as we become more involved economically with another country that we should be more concerned about the human rights in that country."

With the process of globalization, Americans' sense of what is right and wrong increasingly extends beyond national boundaries to the world as a whole. Seventy-three percent said they regard themselves as citizens of the world as well as citizens of the United States. More than eight out of 10 said that when American companies operate overseas they should be required to abide by U.S. environmental and labor standards even if they are not required to do so in the host country and even though most thought this would probably lead to higher prices for American consumers.

Americans tend to view trade as being an instrument that can and should be wielded to bring about positive changes in other countries, even if there are economic consequences for the United States. Very strong majorities want to limit trade with countries that violate international human rights standards such as China (75 percent) and Burma (77 percent). Largely for human rights reasons, only a minority supports including China in the WTO, according to several recent polls, and for years now a modest majority has opposed giving China most favored nation status or normal trade relations.

PUBLIC PROTEST: Though some demonstrators in Washington this spring wanted to stop the work of the World Bank and International Monetary Fund, most Americans understand the need for continued global engagement while improving standards for human rights, labor, and the environment.

The public's high-toned positions might be difficult to implement. Many countries resist outside pressure to raise their standards for labor, the environment, or human rights, just so that they can trade more freely. Because most Americans are not highly enthusiastic about how trade has developed, they will probably be more ready than U.S. policymakers to wait until these countries come around. And the public is unlikely to be persuaded by the entreaties of the WTO that these problems should not be addressed in the context of trade.

The public is not so unrealistic as to believe that all countries have to look like an advanced democracy before they can have an open trading relationship with the United States. But the public will be looking for signs that some efforts are being made to raise global standards for labor, the environment, and human rights and to give Americans the tools they need to succeed in the New Economy. They are unlikely to be persuaded that the benefits of trade are so great that these other values can simply be set aside for now — because they are not convinced that the benefits of trade are that great, and because they resist sacrificing one value for another. To find a consensus, policymakers will have to be perceived as genuinely pursuing a holistic approach that addresses multiple values simultaneously. ■

"The public is not so unrealistic as to believe that all countries have to look like an advanced democracy before they can have an open trading relationship with the United States."

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Developing state economies

Good public education, a robust R&D infrastructure, and job-specific skills training are now much more important to a state's success than business incentives.

In the New Economy, states can play a key role in economic growth. Compared to the federal government, states are better positioned to foster regional clusters of innovation, to promote industry-university partnerships, to reform education, and to engage industry in skill-development efforts.

But too many states still approach economic development the way they did in the old economy. Then the preconditions for states' economic success were things like low costs; abundant, basically skilled labor; and good transportation and other physical infrastructures. And their standard bag of policy tricks was largely filled with things like giveaways, tax holidays, and other business incentives, usually focused on snagging a big factory to move to the state. Moreover, the goal was one thing and one thing only: more jobs.

Both these strategies and goals are increasingly out of touch with the factors that breed states' success in the New Economy: how effectively they can spur technological innovation, entrepreneurship, education, specialized skills, and the transition of all organizations — public and private — from bureaucratic hierarchies to learning networks. As a result, issues such as good public education, a robust R&D infrastructure, availability of job-specific skills training, high quality government, and innovative economic development efforts are much more important to a state's success than the occasional bonanza they bestow on the firm lucky enough to get it.

With a change in means must also come a change in goals. Recently, the economic development director of a booming Midwestern state with an unemployment rate of less than 3 percent complained that the ensuing labor shortage made it difficult to get companies to move to his state. There just weren't the workers available. What's wrong with this picture? When a low unemployment rate becomes a problem, it's clear that states are chasing the wrong goal. Rather than try to get bigger at all costs, states need to get better. They need to focus on creating better jobs for more people, on raising per capita incomes and on enabling a broad-based prosperity that produces the widest possible winner's circle.

A progressive, innovation-oriented state policy framework for this New Economy should rest on five pillars:

1. Co-invest in the skills of the workforce. Lack of progress in education is cause for concern. Nationwide, K-12 performance has simply failed to keep up with the pressing need for a skilled workforce in spite of continued increases in spending. And industry has cut back its expenditures on training. To ensure a skilled workforce, states need to do several things:

- Hold all students to high standards.
- Adopt sensible public school choice policies.
- Provide incentives for the creation of math and science charter high schools serving disadvantaged students.
- Co-invest in industry-led regional skills alliances.
- Rationalize programs funded under the federal Workforce Investment Act to create one-stop shops for all employment and training services.
- Increase scholarships for students attending public or private technical colleges.

2. Co-invest in an infrastructure for innovation. Innovation drives growth in the New Economy. If states want to boost the incomes of their residents, embracing technological innovation is the path. States should do several things:

- Increase investments in science and engineering programs at colleges and universities.
- Fund collaborative industry-university research "centers of excellence."
- Boost R&D tax credits or create them if they don't exist.

3. Create customer-oriented government. States with the most innovative, customer-oriented institutions (businesses, nonprofits, and governments alike) will be the winners in the New Economy. But current government organization in most states has been borrowed from the hierarchical mass production model, tending to produce many (if not more) of the same rigidities, inefficiencies, quality problems, and customer dissatisfaction that plague similarly structured businesses. If Industrial Age state governments do not transform into nimble Information Age service deliverers, they will impede rather than advance progress.

- Be on the forefront of providing government services online.

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ACCESS TO TOOLS: States should invest in public access to the Internet (above) and retraining. Former lobster fisherman Daniel Mahoney (inset) learned engine repair using electronic diagnostics after the local fishing industry collapsed.

States with innovative, customer-oriented institutions will be the winners in the New Economy. But most states still operate on a mass production model.

4. Foster the transformation to a digital economy. If the digital economy is to reach its full potential, government regulatory, tax, and procurement policies (at all levels) must be aimed first at not hindering and then, where possible, at proactively fostering the transformation. There are a number of things states can do:

- Work to establish an electronic commerce legal framework consistent across state lines.
- Reject legislation that protects old economy industries from New Economy e-commerce competition.
- Encourage faster deployment of broadband telecommunications technologies.
- Support Internet access at public facilities.
- Let individuals get digital signature certificates when they apply for a driver's license. These signatures can then be used to heighten online security and boost e-commerce.

5. Foster civic collaboration. In the New Economy, successful states and regions have effective collaborative networks that implement innovative solutions to public policy questions, placing the public interest above a narrow interest in maintaining the status quo. States should:

- Form economic policy councils that bring together key leaders in business, government, labor, civic groups, and higher education to provide in-depth analysis of the economy.
- Develop creative economic strategies.
- Build widespread consensus for action.

The New Economy is here to stay. It bears enormous potential for the growth of state economies, but it also creates challenges. If states do not invest in a knowledge infrastructure — world-class education, training, and technology — companies will not have the skilled workers and cutting-edge tools needed to grow. If states erect barriers to the growth of the Internet — such as enacting over-restrictive privacy legislation — the real incomes of their residents will ultimately suffer. And if governments do not transform themselves into Information Age governments, they will impede, rather than advance growth. States that meet the challenges of the New Economy — focusing on innovation, learning, and constant adaptation — will be the ones that succeed and prosper.

—Robert D. Atkinson

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A new bargain for success

by Mark J. Penn

Americans are more optimistic than ever, despite worries over personal wealth and security. They understand the potential and risks of the New Economy, and want government to help provide the rules, tools, and framework for full participation.

As the U.S. economy continues to boom, how do Americans view its unparalled growth and the change it has wrought? Do they recognize the emergence of a New Economy and understand the challenges and opportunities it presents? Or do they see the changes as having little or no impact on their lives?

A poll of 500 registered voters, conducted March 27-29, 2000 by Penn, Schoen & Berland Associates for BLUEPRINT (margin of error +/- 4.4 percent) set out to answer these questions and measure the attitudes, fears, and hopes of American voters toward the New Economy.

Among the key findings:

- Americans are pleased with the direction in which the country and the economy are headed. Concerns about economic issues are at historic lows. Optimism is at an all-time high.
- People clearly recognize that there is a New Economy and understand that the ramifications of this evolution are not limited to high-tech companies, but touch workers and businesses in all sectors of the economy.
- Americans see the New Economy driven primarily by the twin influences of technology and globalization. Technology is also seen as the largest contributor to the current economic boom.
- Voters recognize there is a *new bargain for success* in the New Economy — in order to get better jobs, better wages, and increased opportunity, they must take more personal control of their future, including obtaining the skills and training necessary to succeed.
- Amid the optimism, there are concerns and worries about the New Economy as well, including reduced job security, a stock market crash, and lost health coverage.
- Voters overwhelmingly endorse an active role for government in expanding the winner's circle of the New Economy by promoting economic growth and helping workers get the tools they need to succeed, while rejecting the supply-side rhetoric of the right and the big-government solutions of the left.

Mark J. Penn is the president of Penn, Schoen and Berland Associates Inc., and the pollster to President Clinton.
Research and polling assistance provided by Jeff Epstein.

Full results of this poll can be found at http://www.dlc.org/blueprint/summer/2000/poll.htm.

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MAKING THE LEAP: Former steelworker Jeffrey Lowmaster is one of thousands in the Lehigh Valley who jumped from the old economy to the New Economy. When dying Bethlehem steel (background) laid him off in 1982, Lowmaster left Pennsylvania in search of work. In 1998, he returned to a job at QED (now IQE), a new high-tech Bethlehem company that makes gallium arsenide wafers for cell phones.

The Poll

1. Mood of the Country

The American public is largely satisfied with the direction of the country, both in general and in its economic progress. A majority of voters (53 percent) think the country is headed in the right direction, and 70 percent say the economy is on the right track. Independents are slightly less optimistic than most (63 percent say the economy is on the right track).

Groups that one would expect to be more in tune with the New Economy are indeed more optimistic — including Wired Workers (workers who use computers at work frequently and work in teams; 20 percent of the poll sample), Internet users (58 percent of the sample) and GenXers (age 21 to 34, and 23 percent of the sample). Nearly eight in 10 voters in each of these groups said the economy is on the right track. Democrats are also more satisfied, with 77 percent saying the economy is on the right track.

Even in the face of recent concerns about gasoline prices, general concerns about the economy have fallen to dramatic lows — less than 10 percent of the voting public says the economy is the most important issue facing the country.

Q: Do you think that things in the country are generally headed in the right direction or are they off on the wrong track?

	All	Dem	Rep	Ind
Right Direction	53	64	43	49
Wrong Track	33	21	42	38

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Q: In general do you think our economy is on the right track or off on the wrong track?

	All	Dem	Rep	Ind	Internet User	No Internet	GenX	Wired Workers
Right Track	70	77	75	63	78	62	79	80
Wrong Track	23	18	20	29	17	30	19	17

Q: What is the most important issue facing the country?

	All	Dem	Rep	Ind
Education	12	11	15	10
Morality / Family Values	8	3	13	10
Economy / Jobs	7	9	4	8
Fighting crime	7	9	3	7
Gas / oil	6	8	1	8
Health Care	5	7	3	4
Campaign finance / elections	5	4	5	5
Juvenile violence / school shootings	4	3	4	5
Drugs	3	3	3	3
Preserving Medicare and Social Security	3	6	1	3
Taxes	3	4	4	3
Race issues	3	2	2	4
Gun control	2	1	4	1
Other domestic	13	10	16	10
Other foreign	5	7	3	7
Don't know	14	16	18	11

2. Yes, Virginia, there is a New Economy

A consensus has developed that there are significant changes afoot in the way our economy works and that we do indeed have a New Economy. In fact, nearly six in 10 voters (57 percent) think that a New Economy has emerged that is significantly different from the old industrial economy. However, perceptions vary based on the respondent's vantage point. For example, while 63 percent of those living in the suburbs say there is a New Economy, there is a much narrower majority (51 percent) among those living in rural areas. Men are also more likely to say there is a New Economy — 63 percent of men say so, compared to 52 percent of women. But Americans who have Internet access, regardless of gender or habitat, are much more likely to say there is a New Economy (62 percent) compared to their counterparts.

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Q: People use the term New Economy to refer to a set of changes in the economy. Do you believe that a New Economy that is significantly different from the industrial economy, has emerged in the United States, or is the current economy basically the same as it has been for the past ten to twenty years?

	All	Dem	Rep	Ind	Male	Female	City	Suburban	Rural	Internet
Yes, New Economy	57	62	56	55	63	52	58	63	51	62
No, same economy	37	35	37	38	34	39	36	32	43	33

People also understand that the New Economy reaches beyond high-technology companies. Nearly eight in 10 (78 percent) say the New Economy is affecting companies and workers in all parts of the economy. Nearly nine in 10 wired workers (89 percent) hold this opinion.

Q: Is the New Economy primarily only affecting high technology companies and workers, or is it affecting companies and workers in all parts of the economy?

	All	Dem	Rep	Ind	Wired Workers	GenX	Internet
Primarily high tech	19	19	17	18	10	11	16
All parts	78	76	80	80	89	85	82

Even though a majority of Americans believe the New Economy affects companies and workers throughout the economy, just under half consider *themselves and their work* a part of the New Economy (46 percent say they are, 49 percent say they are not). The discrepancy between the 57 percent who say there is a New Economy, the 78 percent who say it is widespread, and the 49 percent who say they are not a part of it is to a certain extent based on differences in access to technology. Even the most widespread technologies — the Internet and computers, for example — are not used universally. Both computer usage at work and Internet usage hover between 50 percent and 60 percent. Those who do not use PCs or the Internet tend to feel less a part of the New Economy, even though they may understand its existence. Of those who have Internet access, a majority (54 percent) say they are part of the New Economy, while only a third (32 percent) of those without Internet access say they are a part of it. Further, the truest participants in the New Economy, Wired Workers, make up only one-fifth of the population; they are also much more likely to consider themselves members of the New Economy (68 percent say they are a part of it).

As Internet usage grows, and more people gain access to many of the tools of the Information Age, a larger portion of the electorate will consider itself a part of the New Economy.

Q: Do you consider you and your work a part of the New Economy or not?

	All	Dem	Rep	Ind	Male	Female	Internet	Wired Workers	GenX	College+
Yes	46	42	46	47	52	40	54	68	63	57
No	49	53	50	46	44	53	42	32	35	39

3. How Do They Feel About It?

Perhaps due to our economic good times, voters have a positive outlook on the New Economy. More than six in 10 (64 percent) say they are very or somewhat optimistic about it (21 percent very optimistic), and only 20 percent are pessimistic. Men are more optimistic than women (68 percent to 59 percent), and the optimism of Wired Workers (75 percent), GenXers (69 percent), and college grads (72 percent) is above average.

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Those who say they are a part of the New Economy are more optimistic about its future. A full 75 percent of this group is optimistic, with 30 percent very optimistic, about the New Economy.

Q: Would you say you are very optimistic about the New Economy, somewhat optimistic, are you indifferent to the New Economy, somewhat pessimistic, or very pessimistic about the New Economy?

	All	Dem	Rep	Ind	Male	Female	Wired Workers	GenX	College+	Part of New Economy
Very optimistic	21	27	20	16	27	15	23	21	25	30
Somewhat optimistic	43	41	45	44	41	44	52	48	47	45
Indifferent	13	13	10	15	9	16	12	12	10	7
Somewhat pessimistic	15	13	14	17	14	15	8	12	14	13
Very pessimistic	5	4	3	7	6	4	6	4	4	4

The optimism over the New Economy is particularly dramatic when attitudes toward opportunity are compared over time. If we compare tracking polls over the last 10 years on the opportunities people see for themselves and their children vis-a-vis their parents, we see a major change of attitude. Today, more than eight in 10 (84 percent) say their opportunities to succeed are better than those their parents had. In 1993, only 63 percent agreed with this statement, and in 1939 just 61 percent saw their opportunity as better than their parents. Today, 72 percent say their children's opportunity to succeed will be better than the opportunities they have. In 1993, less than half (49 percent) made this assertion. Thus, American optimism about opportunity and the economy is close to an all-time high.

Q: Do you think your opportunities to succeed are better than, or not as good as, those your parents had?

	All	Dec 1939*	Aug 1993*	Dem	Rep	Ind	GenX	Part of New Economy
Better	84	61	63	89	82	80	86	87
Not as good as	14	20	22	8	17	17	12	11

Q: Do you think your children's opportunities to succeed are better than, or not as good as, those you have?

	All	Dec 1939*	Aug 1993*	Dem	Rep	Ind	GenX
Better	72	61	49	82	74	63	78
Not as good as	18	15	32	10	14	28	15

4. What's So New? Technology and Global Markets.

Technology is at the center of Americans' understanding and perception of the New Economy. It is seen as the driving force behind the current economic boom, the factor that has changed the most in our economy, and the best term to describe the New Economy.

Asked what best describes the New Economy, "technology-driven" is overwhelmingly the top choice — 40 percent say it is the best descriptor, and 59 percent listed it as their first or second choice. "Global" is the only other term to garner double digits, at 13 percent first, and 28 percent first or second.

**Surveys by Roper Starch Worldwide, 1939-1993, cited in* What's Wrong: Survey of American Satistaction & Complaint, *Ladd & Bowman, eds., The Roper Center, 1998.*

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People are also positive about the New Economy. Out of the ten terms listed, the vast majority chose positive words to describe the New Economy, with only 8 percent saying "risky," 4 percent "unfair," and 4 percent "frightening". When looking at the first and second choice of phrases to describe the New Economy, a majority (63 percent) chose two positive terms, while 31 percent chose one positive and one negative, and only 6 percent chose two negative terms.

Q: Which of the following terms best describes what comes to mind when you hear the term "New Economy"?

	1st	1st + 2nd	Dem	Rep	Ind	GenX	Wired Workers
Technology-driven	40	59	40	40	41	43	45
Global	13	28	9	16	13	18	21
Risky	8	20	6	7	11	5	4
Prosperous	8	15	11	7	4	3	3
Empowering	5	12	6	3	6	7	8
Entrepreneurial	4	13	4	3	5	5	5
Unfair	4	9	6	1	5	2	2
Frightening	4	11	3	6	5	7	2
Dynamic	3	10	4	4	2	7	6
Revolutionary	3	8	1	6	3	1	1

The growth in new technology is also cited by 35 percent as the key contributing factor to our economic boom. The second most cited factor was government restoring fiscal discipline and paying down the national debt (13 percent).

Q: What do you think is contributing most to our current economic boom?

	All	Dem	Rep	Ind	Wired Workers
Growth in new technology	35	38	37	32	46
Government restoring fiscal discipline and paying down the national debt	13	18	7	13	11
Increased global trade	11	9	13	12	8
Americans' willingness to take risks	9	9	10	6	6
Federal reserve policy and interest rates	8	5	6	12	7
Rapid innovation in businesses	7	7	8	6	9
Natural market forces	6	3	9	6	8

Voters view the Internet and e-commerce as critical technologies for the New Economy. But while they are skeptical of government regulation of the Internet, they would support government efforts to wire more schools and communities to the Internet. Forty percent of Internet users would prefer the government stay out of regulating the Internet, while a third (33 percent) say the government should work with industry to develop self-policing rules.

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Q: An increasing number of Americans are using the Internet and e-commerce continues to grow. Which is closer to your view on what the federal government should do?

	All	Dem	Rep	Ind	Internet
Regulate commerce on the Internet like it regulates other industries	25	23	20	30	23
Stay out and leave it to the market	37	27	47	38	40
Work with industry to develop self-policing rules	31	38	26	27	33

Q: As the Internet has developed, more middle- and upper-income Americans have gotten on-line compared to low-income Americans. What should the government do to address this issue?

	All	Dem	Rep	Ind	Wired Workers
Do nothing and wait for the price of computers and Internet access to fall enough so low-income Americans can afford to get online	19	11	26	22	17
Support the wiring of schools, libraries, and community centers so people in low income communities can get on the Internet	58	62	56	55	68
Subsidize the purchase of computers and Internet access for low income Americans	15	16	12	17	11

5. The New Bargain of the New Economy

Americans show a remarkable degree of sophistication in understanding the requirements, benefits, and trade-offs of the New Economy. They realize jobs will churn faster, and that the New Economy demands personal responsibility for education and training. But they also recognize the other side of the new bargain — more and higher quality jobs, and better wages and benefits.

A majority, for instance, say that higher rates of job turnover mean better wages and jobs in the long run (56 percent), while only a third (33 percent) say it means greater risk, lower wages, and a higher chance of sliding down the economic ladder. Even 58 percent of union households say that high job turnover can produce good outcomes in the long run. Additionally, Democrats seem to grasp this concept better than Republicans or Independents — 63 percent of Democrats say it will lead to better jobs, wages, and opportunity.

Americans clearly understand the trade-offs involved in the New Economy. A majority say it is worth the risk of losing some jobs in traditional industries for America to remain on the cutting edge of technological innovation.

Q: Do higher rates of job turnover mean:

	All	Dem	Rep	Ind	Wired Workers	GenX	Union	Part of New Economy
Greater risk, lower wages, and a higher chance of sliding down the economic ladder?	33	27	34	38	30	39	34	33
Better jobs, wages, and opportunity in the long run?	56	63	54	53	63	52	58	62

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Q: Do you think it is important that America remain on the cutting edge of technological innovation even if that means losing some jobs in traditional industries, or should we concentrate on protecting traditional jobs even if it means slowing down American technological innovation?

	All	Dem	Rep	Ind	Wired Workers	GenX
Important that America remain on cutting edge	55	53	60	52	69	59
Protect traditional jobs even if it means slowing down technical innovation	39	38	33	45	26	37

Americans also have realistic expecations of what might happen over the next few years as a result of the New Economy — they believe they will earn higher wages and may get a better, more interesting job, but they also recognize they will need to gain more education and training.

When asked what was likely to happen to them over the next few years as a result of the New Economy, the top response was that three in 10 (29 percent) expect to earn a higher wage. Nearly a quarter (23 percent) expect they will need to go back to school to get another degree. More than one-fifth (21 percent) say they will need to go through job training to get more skills.

Wired Workers (42 percent) and those who consider themselves part of the New Economy (40 percent) are much more likely to think that they will earn a higher wage in the New Economy. GenXers are slightly more likely to think they will change jobs more frequently or lose their current jobs, perhaps due to their more recent entrance into the workforce.

Q: Which of the following do you think are likely to happen to you over the next few years as a result of the New Economy? MULTIPLE RESPONSES PERMITTED

	All	Dem	Rep	Ind	Wired Workers	GenX	Part of New Economy
Earn a higher wage	29	33	28	27	42	37	40
Need to go back to school to get another degree	23	22	21	28	20	30	25
Need to go through job training to gain more skills	21	20	19	22	23	17	25
Have a better job that is more interesting and challenging	17	15	14	21	26	22	20
Work more hours	12	9	12	13	16	10	10
Change jobs more frequently	10	8	9	13	8	16	12
Work fewer hours	8	6	10	8	11	10	8
Need to re-locate for work	6	3	3	10	4	7	7
Lose current job	5	6	5	5	6	11	5
Earn a lower wage	3	3	1	5	2	4	4

Along with the high expectations for the New Economy, people expressed the need for certain tools to help them succeed. Personal control over pension and health care benefits, and a life-long access to education and training were the top two things voters said were critical to their success. Wired Workers (41 percent) and GenXers (34 percent) recognize the importance of education and training more than others. Only 17 percent see a tax cut as a key to their success.

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Q: Which of the following is most important to your success in the New Economy?

	All	Oct 1998	Dem	Rep	Ind	Wired Workers	GenX
Personal control over pension and healthcare benefits	31	27	33	30	30	26	23
Lifelong access to education and training	25	30	25	22	28	41	34
A tax cut	17	18	8	30	17	13	19
Stronger labor unions	7	8	12	3	5	2	7
Protection from global competition	7	4	7	7	6	4	4
A chance to own stock in your workplace	7	8	6	7	7	11	10

6. What? Me, Worry?

Not surprisingly, people have some reservations about the New Economy, but the biggest one seems to be a stock market crash or depression (23 percent). No other fears rank in double digits.

GenXers, who may not have held many jobs or are slightly afraid of the job market, tend to be more concerned about losing their jobs. Additionally, despite the current computer use of Wired Workers, this groups is more worried about not having the skills it takes to succeed in the New Economy, perhaps due to their exposure to more competitive and dynamic work environments.

Q: *What is your biggest fear about the New Economy ? OPEN-END*

	All	Dem	Rep	Ind	Wired Workers	GenX
Stock market crash or depression	23	22	24	22	25	24
Losing your health coverage	9	10	7	9	9	7
Lacking the skills it takes to succeed in the New Economy	9	7	10	9	16	9
Losing your job	7	7	2	10	7	13
Countries with no labor standards gaining an unfair advantage	7	5	9	7	7	6
Increasing oil prices	6	6	5	7	4	4
More government regulation	3	3	4	2	2	1
Wider gap between rich and poor	2	3	1	2	2	1
Inflation	2	3	2	1	1	2
None	3	4	3	2	3	3
Others	15	15	14	14	12	13
Don't know	15	14	18	14	13	16

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7. An Active Government Is Necessary.

Americans expect the government to play an active role in empowering them to succeed in the New Economy. From stimulating the economy, to addressing job security, to promoting economic growth, to fostering innovation, to making it easier to gain new skills and education, Americans support the Third Way of expanding the winner's circle and giving people the tools they need rather than approaches from the political right or left. Forty-nine percent say government's role is to invest in science, research, education, and job skills while only 36 percent say it is to cut taxes to spur more investment.

Wired Workers, by a margin of more than 2-1, reject the need for tax cuts and agree on the importance of government investment in our future.

Q: Which is closest to your view on the proper role of government in the New Economy?

	All	Dem	Rep	Ind	Wired Workers
Government should spend more to spur consumer spending and full employment	9	12	2	10	3
Government should cut taxes to spur more business investment	36	27	47	36	29
Government should invest in science, research, education, and job skills to spur more innovation	49	57	43	47	64

Q: Which of the following do you think is the proper role of government in fostering innovation in the economy?

	All	Dem	Rep	Ind	Wired Workers
Aggressively invest in scientific research, technology, and training	46	57	32	46	58
Let market forces drive innovation rather than making a particular effort to encourage innovation	43	35	55	42	37

When it comes to addressing job turnover and security, voters favor the centrist position even more strongly. Rejecting hands-off, supply-side economic policies as well as regulatory approaches, voters instead favor providing workers with the tools they need to move on to new jobs if necessary. Nearly two-thirds (64 percent) support this position, including three-quarters of Democrats (76 percent) and 72 percent of GenXers.

Q: The economy has become more volatile in the last decade with some workers experiencing less job security — almost a third of all jobs are in flux, either being added or subtracted every year. Which is the right government response to the increasing turnover of jobs in the New Economy?

	All	Dem	Rep	Ind	Wired Workers
Do nothing and let the market work	19	8	34	19	17
Try to slow down turnover by passing laws to discourage corporate downsizing	12	10	16	11	7
Provide workers with the tools and skills they need to move on to the new jobs if necessary	64	76	45	67	72

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The widespread consensus behind this centrist approach is also evidenced through dramatic support for a variety of initiatives designed to empower and assist all Americans in making the transition to the New Economy. The strongest support is for increasing support for job-retraining programs, and expanding college scholarships for majors in the sciences. Cutting taxes and providing unemployment benefits in lump sums for workers trying to start a business are the only programs that are opposed by a majority.

Wired Workers and Democrats are more strongly behind most of the proposals than the electorate as a whole, while Republicans are the most likely to oppose proposals such as expanding unemployment insurance for part-time workers.

Q: Do you strongly support, somewhat support, somewhat oppose, or strongly oppose this proposal?

	Strongly Support	Support/ Oppose	Dem	Rep	Ind	Wired Workers
Increase support for job re-training programs	56	88/8	93/6	88/10	90/10	94/5
Expand college scholarships for majors in math, science, and engineering	52	84/13	88/10	77/22	90/10	92/8
Increase support for programs that help small businesses train their workers and adopt more modern production methods	51	87/12	92/7	89/12	84/15	93/5
Create a lifelong education advancement pursuit (LEAP) loan, which are similar to student loans, but apply to people training for a second career	45	80/17	87/10	77/22	79/19	88/11
Provide tax credits to companies who train workers in literacy, basic skills, and English as a 2nd language	40	71/26	79/19	67/31	69/30	79/21
Increase federal investment in scientific research	36	76/21	82/14	76/21	74/26	84/16
Expand unemployment insurance to cover low-wage, part-time, and seasonal workers	33	64/33	78/20	47/50	67/33	69/30
Cut income taxes for high earners to encourage investment	23	46/50	36/63	61/37	48/48	42/55
Give unemployment benefits in one lump sum to someone who is trying to start a business using their unemployment funds	18	41/54	48/47	36/61	40/58	47/53

8. Unions

Just as Americans support an active role for government, they also support an active role for unions. With the onset of the New Economy, many look at the decline in labor union membership and claim that unions are now obsolete and unnecessary. However, a majority disagree with this assertion, claiming that unions are necessary now more than ever, but that they must change their focus and direction in the New Economy. Over seven in ten (71 percent) say unions should focus on lifelong learning rather than protecting job security (24 percent). Even two-thirds of those in union households (67 percent) agree with this change in union focus.

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Q: Some people point to the decline in labor union membership and say that unions are obsolete in the New Economy. Others say that in today's volatile global marketplace, working Americans need union protections as much as ever. Which is closer to your view?

	All	Dem	Rep	Ind	Union HH
Unions obsolete	39	28	52	40	32
Working Americans need unions	55	64	43	55	65

Q: In thinking about the role of labor unions in the New Economy, which is closer to your view?

	All	Dem	Rep	Ind	Wired Workers	Union HH
As U.S. corporations downsize, automate, and shift produciton overseas, labor unions should focus on protecting the job security of American workers	24	26	21	23	19	31
Because job security today depends more on what you know than where you work, labor unions should focus on lifelong learning to help workers continually improve their employability	71	71	71	73	79	67

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Postscript

by Bernard L. Schwartz

Americans have never had greater reason for optimism. Our public policies should reflect that.

Four years ago, in an op-ed article, I wrote:

We are living in the best of economic times, experiencing low inflation and stable, low interest rates. The savings rate is up after a long decline. The deficit has been cut in half in two years and total government spending has declined to the lowest in over 36 years.

Productivity is robust and, in fact, substantially underestimated because the standard economic models do not factor in technological achievements such as ever speedier and more powerful computers and faster and more cost-effective communications and entrepreneurial innovation.

High corporate earnings, solid job creation, low unemployment, new technology investments, high capital availability — surely this performance gives testimony that the long-standing fears of high inflation, crowding out of investment and crippling interest rates have been overblown.

Moreover, the globalization of the economy, the easy access to plant capacity in other countries and the instantaneous transfer of money on world markets has evened out the extremes of the business cycle. And as our economy reaches $7 trillion annually, we may be able to refine some of the overly restrictive limitations of our economic model.

> "It is time to recognize that huge wealth creation, the refueling of the economy, and reinvestment in the capital markets have, in turn, created new opportunities."

Those words are as true today as they were in 1996 — except that the economic expansion has extended into the longest in our history. Inflation remains under control, and the number of skilled and unskilled employees laid off in the last decade because of industry consolidation have been recycled into productive jobs in expanding or emerging industries. We face nearly ideal conditions:

- unemployment low;
- employment high;
- millions of jobs created;
- all income brackets on the rise;
- the federal budget in substantial surplus — perhaps for another decade;
- comparable state budget surpluses, unnoticed to date, that should help relieve future societal pressures.

Prosperity and growth are widespread and based on solid performance. What's wrong with this picture? Nothing.

The business cycle may not have been repealed, but the dynamics of business cycles have been altered. Dramatic new modes of communication are speeding financial information through the system. Better and more reliable data are available to all. Through it all, rising quarterly earnings continue to surprise the policymakers.

We have every reason to expect continued prosperity and social progress. It is time to recognize that huge wealth creation, the refueling of the economy, and reinvestment in the capital markets have, in turn, created new opportunities. There is nothing fragile or temporary about this development. It is time to reorganize our policy perspective to a more optimistic and realistic view of the economy. ■

Bernard L. Schwartz is chairman and CEO of Loral Space & Communications and chairman of BLUEPRINT*'s advisory board.*

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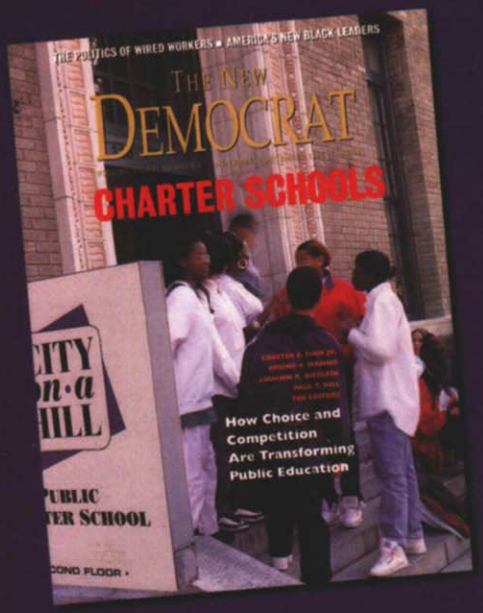
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